THE REAL ESTATE ANALYSTS

The Real Estate ANALYST

DECEMBER 1945

Roy Wenzlick
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies.....Surveys.....Forecasts

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VOLUME XIV

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

MORE ABOUT RENT CONTROL

RENT control has now been in force in most cities for a period of more than three and a half years. We have had enough experience with it to be able to get some perspective on the problem. On the center spread of this report is shown a comparison of the cost of living with residential rent in 32 cities of the United States from 1914 to the present. Both the cost of living figures and the rent figures are derived from the indexes of the Bureau of Labor Statistics of the United States Department of Labor.

Each series has been expressed in relationship to the base 1921 to 1938 equals 100. This period of eighteen years was selected for several reasons. In the first place, it contains both the good years in the twenties and the bad years in the thirties in about equal number. In the second place, it is the approximate length of the real estate cycle which over 150 years has averaged eighteen and four-tenths years. It would be unfair to compare rents with either a low or a high portion of the cycle, and so one complete swing is considered as the best base. This basing of these figures on one cyclical period is good statistical practice, far better in fact than basing figures on a single year.

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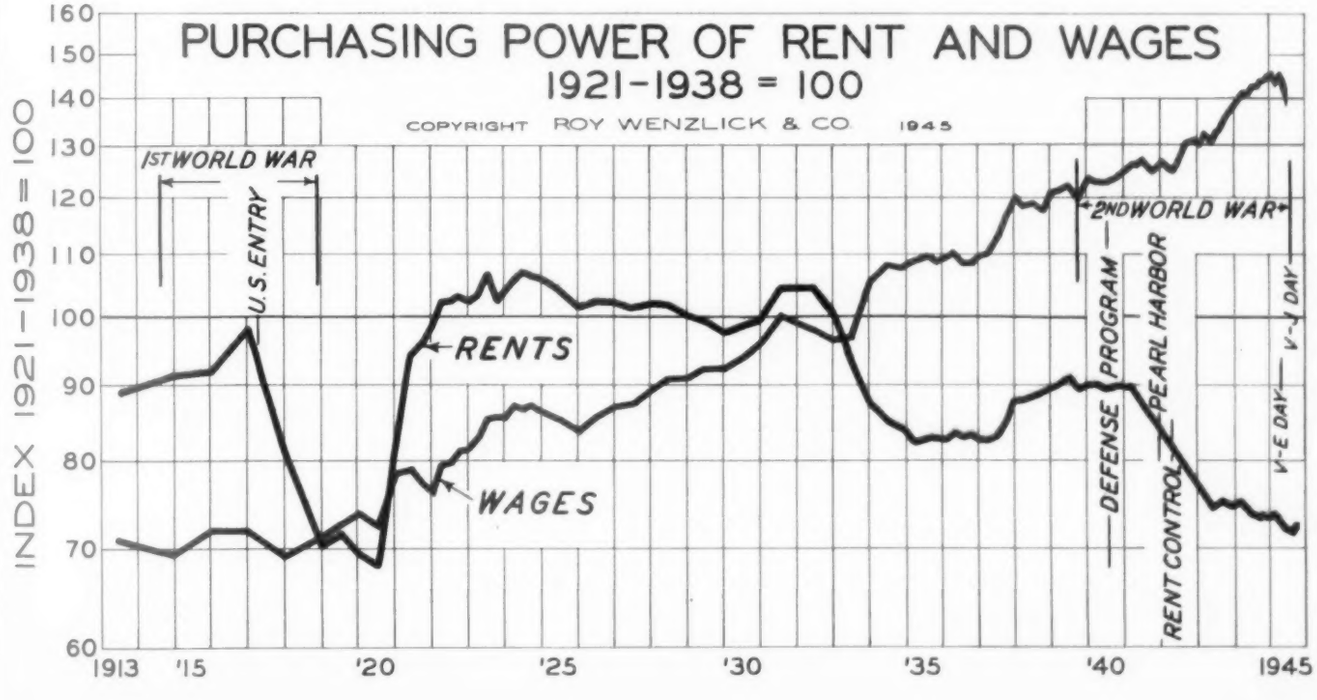
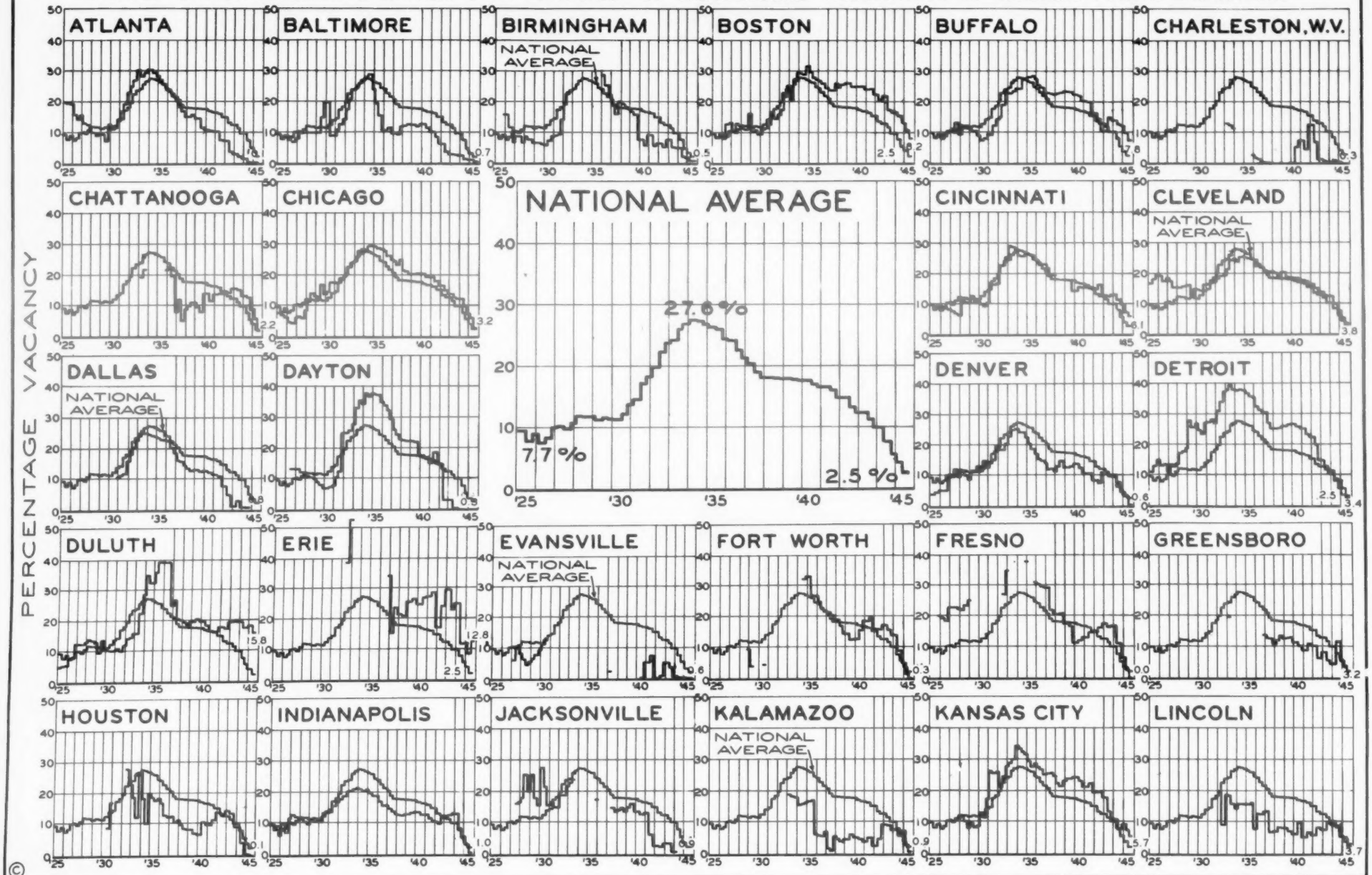


OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



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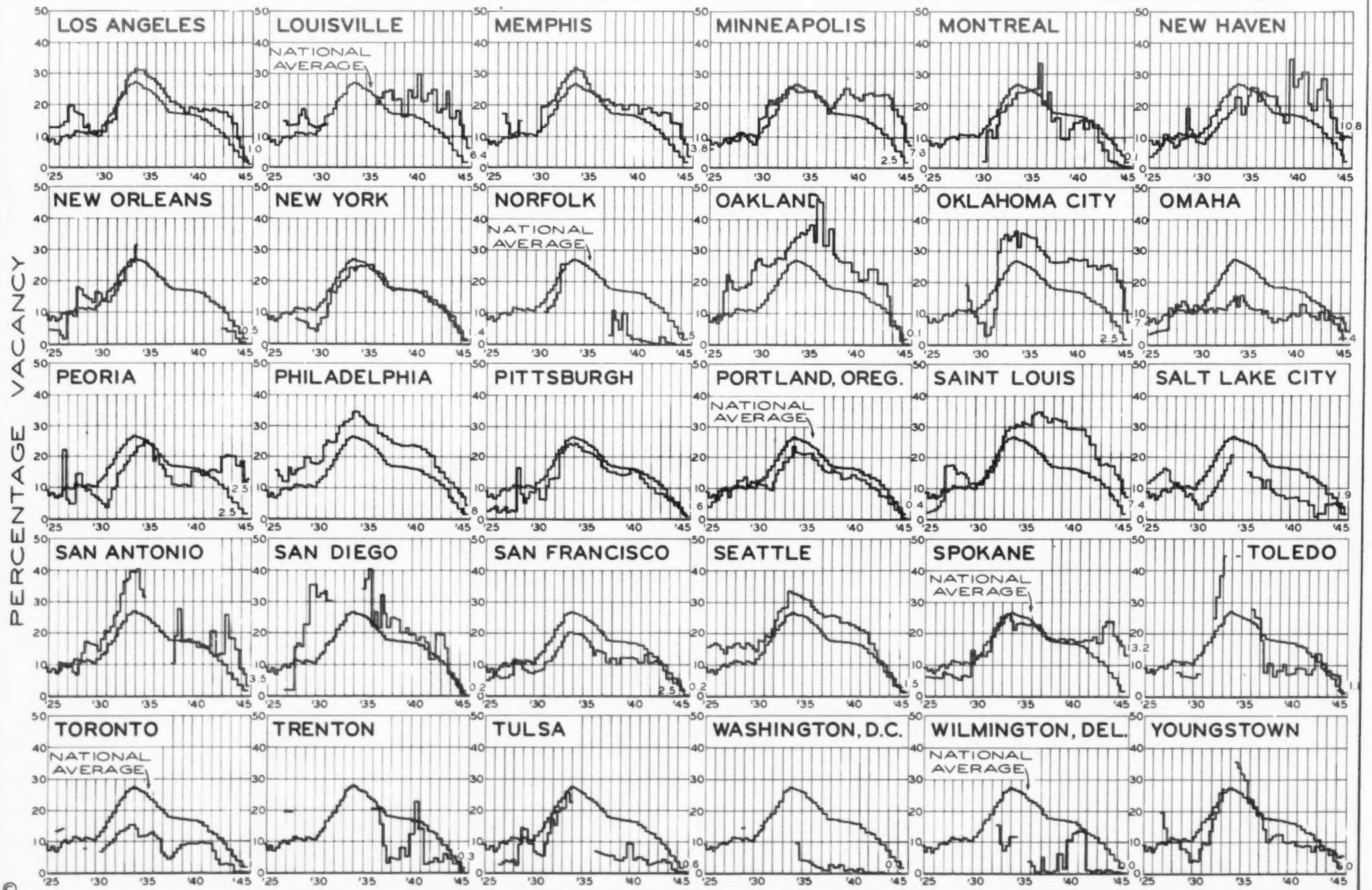

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APARTMENT BONDS RISING RAPIDLY

THE index on Apartment Bond Prices, given in table form and charted below, attempts to measure prices since 1931. It was found impossible to carry the index back further as in most cases, prior to 1931, the market for real estate bonds was artificially supported by the underwriting house regardless of the condition of the individual property. The declines in all issues came at the time when the underwriters stopped supporting the market.

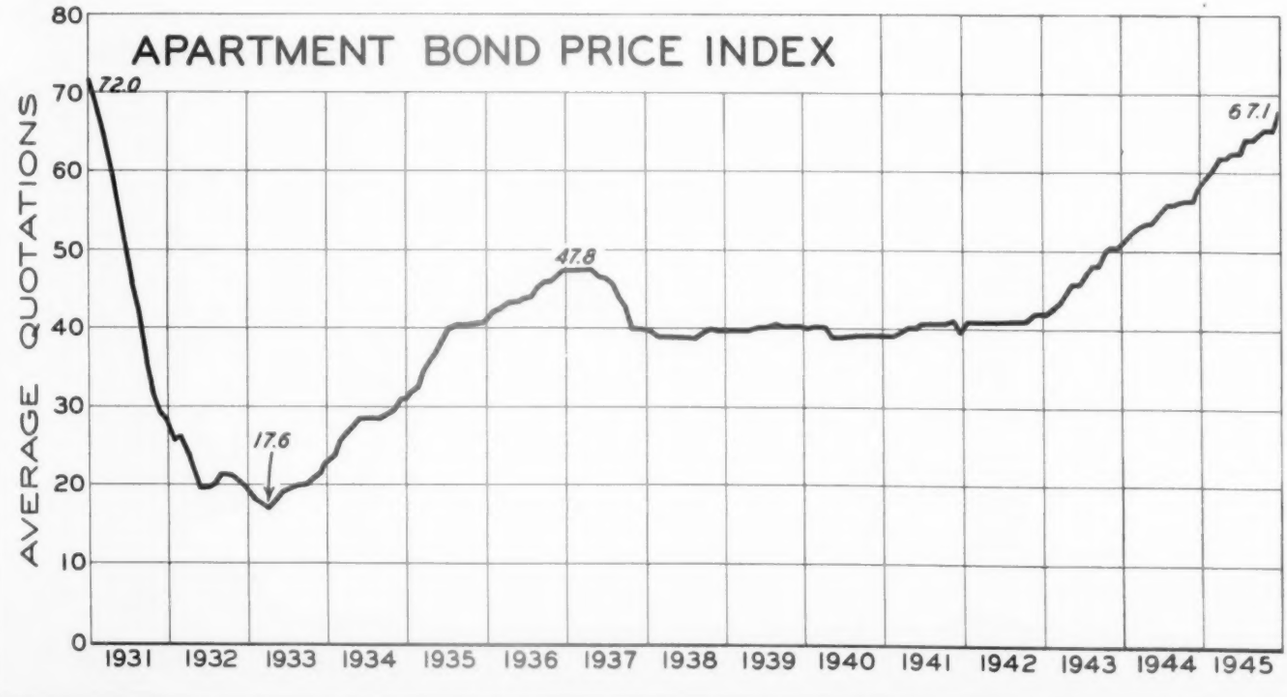
The 25 issues selected for this index cover properties in 14 cities. These particular issues were selected because they are sufficiently active to secure regular quotations. Issues with complicated reorganization plans have been avoided.

Apartment bonds have increased by 64 per cent since the war started in Europe. During the past year they have increased 14.7 per cent. They are now 281 per cent above the low of 1933.

These rises in apartment bond prices have been made in spite of rent control. In a free market the rise would have been much greater.

INDEX OF APARTMENT BOND PRICES

	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
1	72.0	28.0	19.8	23.1	31.7	41.4	47.8	40.2	40.2	40.6	39.8	41.5	42.5	51.9	59.6
2	69.1	26.3	18.6	24.0	32.7	42.6	47.8	40.2	40.2	41.0	39.8	41.5	43.1	53.0	60.8
3	66.3	26.8	18.0	26.1	33.7	43.0	47.8	39.4	40.2	41.0	40.0	41.5	43.6	53.5	62.0
4	63.6	24.7	17.6	26.9	35.0	43.4	47.8	39.4	40.2	41.0	40.8	41.5	44.9	54.0	62.0
5	59.2	22.2	18.0	28.2	36.8	43.8	47.8	39.4	40.2	39.4	40.8	41.5	46.2	54.0	62.6
6	54.4	20.0	19.6	29.0	38.7	43.8	46.9	39.4	41.0	37.6	41.2	41.5	46.2	55.1	62.6
7	50.1	20.0	20.0	29.0	39.5	44.2	46.9	39.4	41.0	38.2	41.2	41.5	47.4	56.3	64.5
8	45.6	20.6	20.2	29.0	40.6	44.6	46.4	39.4	41.0	39.8	41.4	41.5	48.4	56.3	64.5
9	41.5	22.0	20.8	29.0	41.0	45.5	44.5	39.4	41.4	39.8	41.4	41.5	48.4	56.5	65.1
10	36.5	22.0	20.8	29.3	41.0	46.4	43.2	40.2	41.0	39.8	41.4	41.7	50.4	56.8	65.8
11	32.1	21.7	21.6	29.9	41.0	46.4	40.6	40.6	41.0	39.8	41.8	42.5	50.9	56.8	65.8
12	29.2	20.8	22.0	31.4	41.4	47.3	40.6	40.2	41.0	39.8	40.5	42.5	50.9	58.5	67.1



REAL ESTATE ACTIVITY HIGHEST SINCE 1889?

THE chart on pages 347 and 348 shows that for the month of November real estate activity as shown on the long chart has reached a point 67 per cent above the long-term computed normal. If the statistical technique in computing the normal is correct, this is the highest point reached by real estate activity since 1889.

The height of this rise, however, brings into question the correctness of the computed normal at the present time. Every chart which attempts to show periods of booms and depressions must compute a "normal" above and below which the fluctuations occur. For many types of economic data a normal will divide the data into active and inactive periods, with a relatively short and generally rather irregular cycle. Real estate in the past has been distinguished by the regularity of its fluctuations and by the extreme length of the period between the tops of booms and bottoms of depressions.

How can a normal for a long series of economic data be computed and what is done to the original figures in the process?

Figures on most of the principal metropolitan areas of the United States are secured by our office each month and these figures undergo two initial adjustments. First, voluntary transfers of real estate are related to the number of families in the area. Were this not done, the line showing real estate

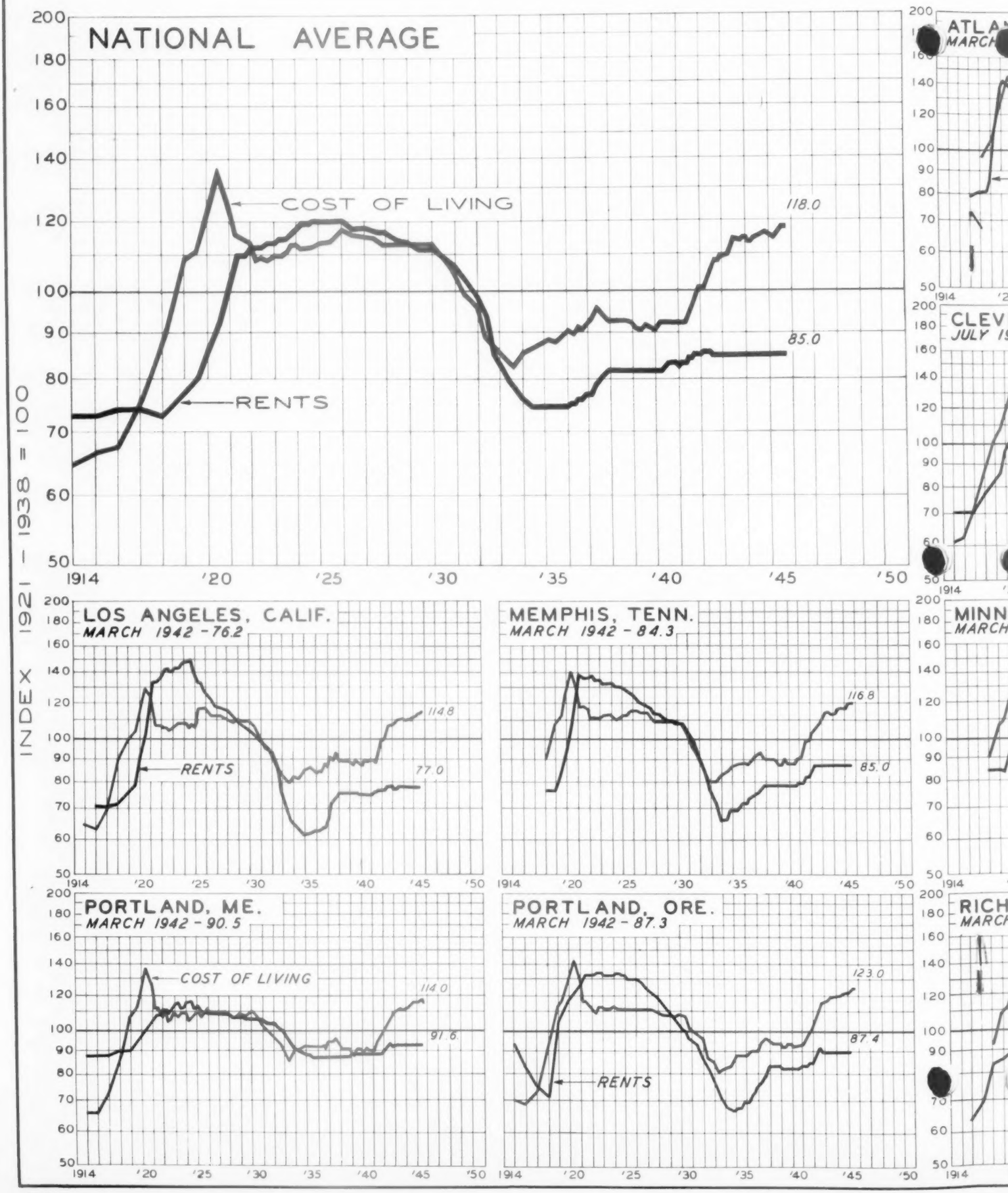
(cont. on page 346)

(cont. from page 337)

It will be noticed on this chart that the cost of living has now advanced to a point 18 per cent above the eighteen-year average, while rents at the present time are 15.0 below the eighteen-year average. It will also be noticed that rents have made relatively little advance from their low in comparison with a rather large increase in the cost of living during the past ten years. During the last three and a half years rents have shown little rise, while the cost of living has risen by a very sizable percentage.

It should also be remembered that the cost of living figures include rents. If rents were excluded from these figures, the cost of living on all items other than rents would show an advance much greater than that shown on this chart. The date and figures on the chart right below the name of the city indicate the month in which rents were frozen and the level at the freezing date.

A still more significant chart, not available, however,by cities, is the chart on the purchasing power of wages and rents over this same period. This chart is shown at the bottom of the first page of this report. This chart shows that the average employed person is now earning a sufficient amount in dollars to provide a standard of living approximately 42 per cent higher than he enjoyed before the war, while on the other hand the average owner of real estate is receiving in rent an amount sufficient only to provide 72.4 per cent of the purchasing power which this same owner enjoyed during the average of the eighteen-year base period. In other words, at the present time the purchasing power of wages is up more than 42 per cent, while the purchasing power of rent is down more than 27 per cent. Under these circumstances it seems rather difficult to understand why the Federal government should wield a club over the property owner to force the owner to rent housing accommodations 15 per cent below the average rents in the eighteen-year base period.


NATIONAL AVERAGE
COST OF LIVING
RENTS
118.0
85.0
INDEX 1921 - 1938 = 100
LOS ANGELES, CALIF.
MARCH 1942 - 76.2
114.8
77.0
MEMPHIS, TENN.
MARCH 1942 - 84.3
116.8
85.0
PORTLAND, ME.
MARCH 1942 - 90.5
114.0
91.6
PORTLAND, ORE.
MARCH 1942 - 87.3
123.0
87.4
1914
'20
'25
'30
'35
'40
'45
'50

RESIDENTIAL RENTS AND COST O

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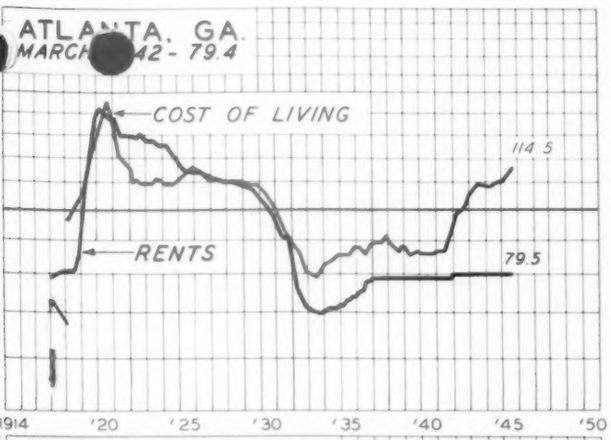
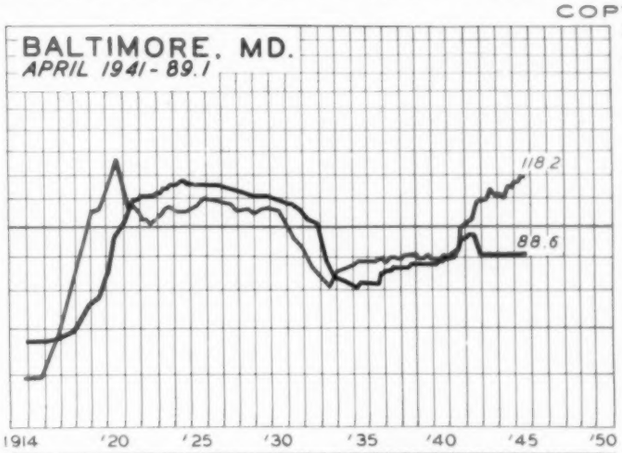
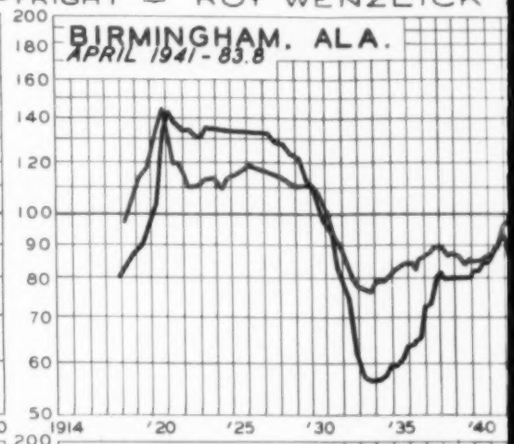
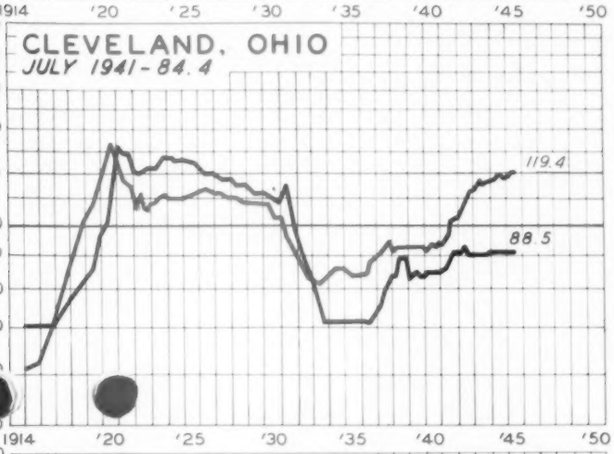
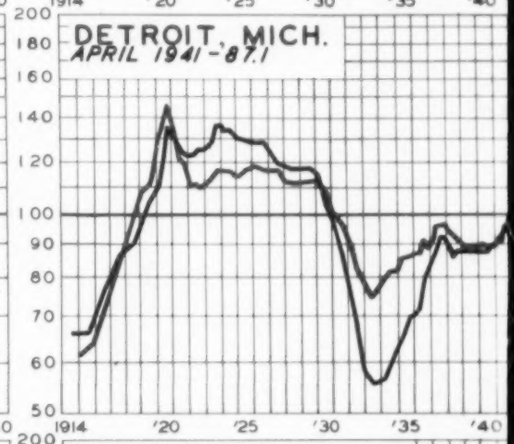
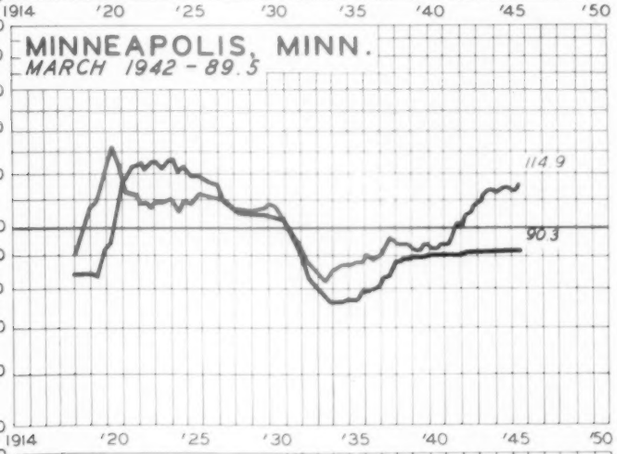


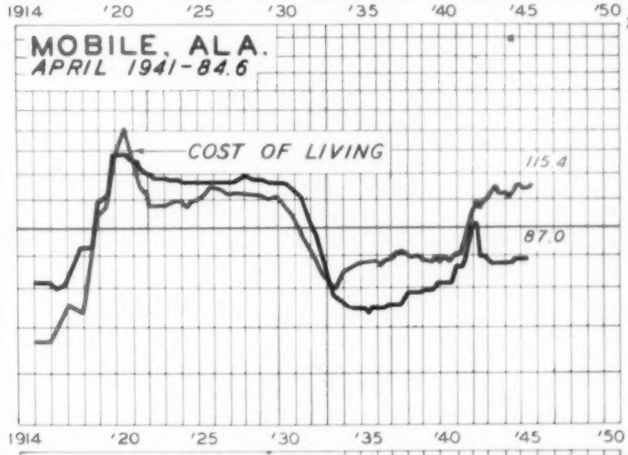


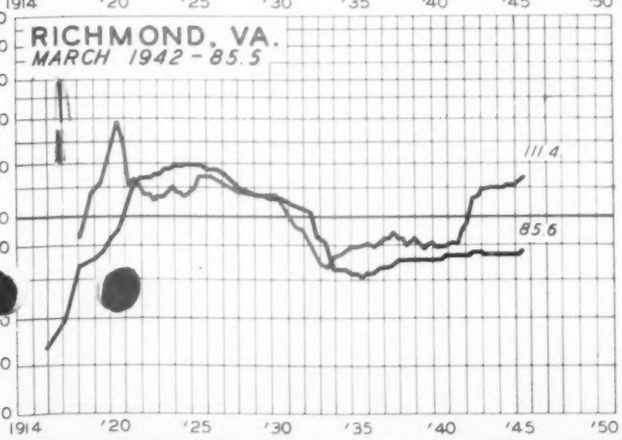


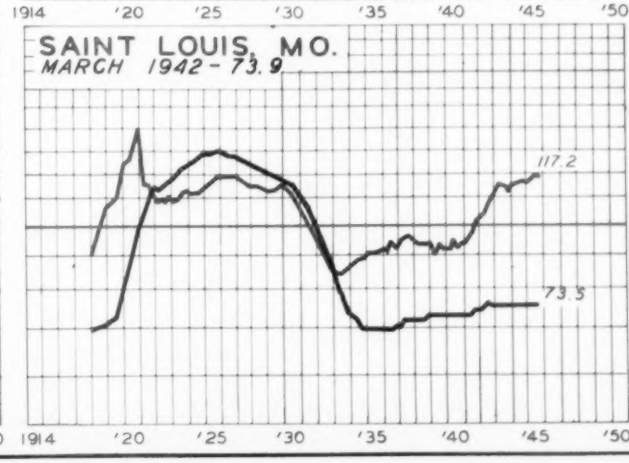


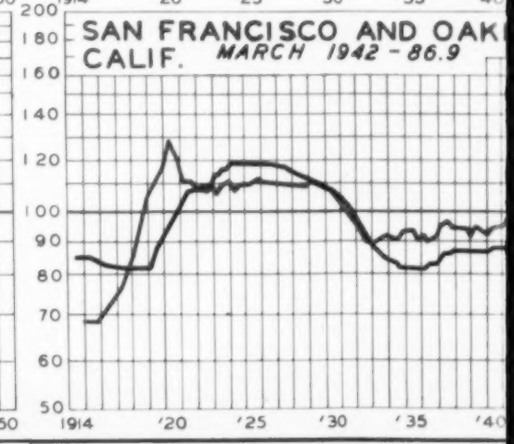






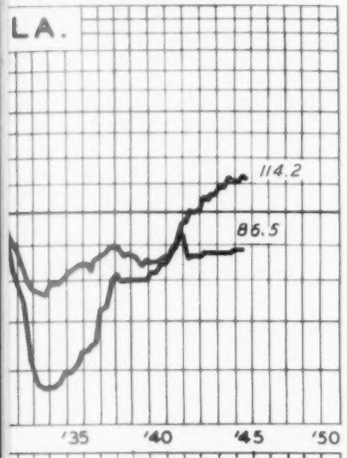


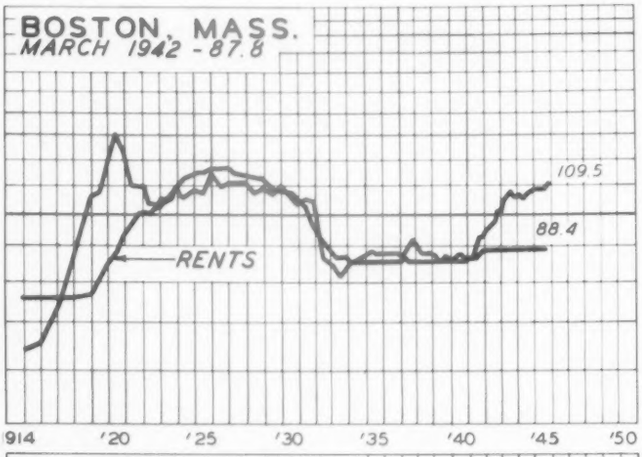


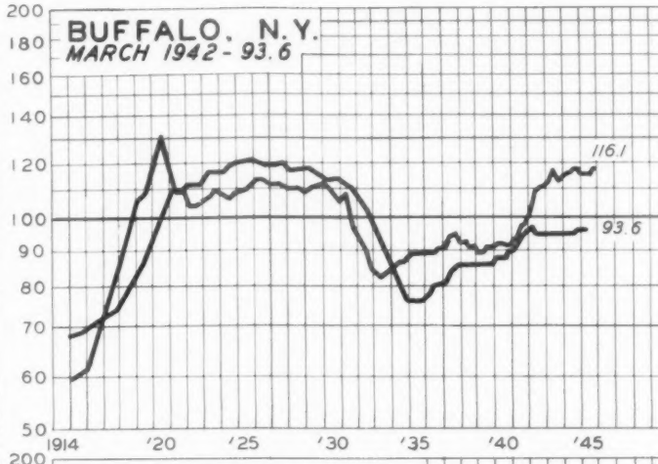


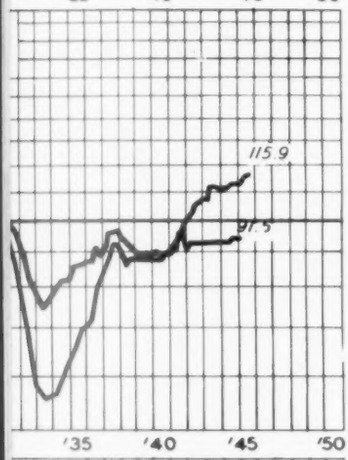
OST OF LIVING IN 32 CITIES

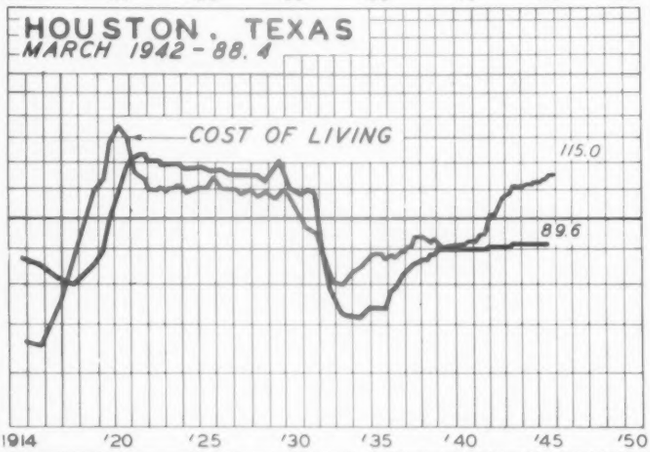
NZLICK & CO. — 1945

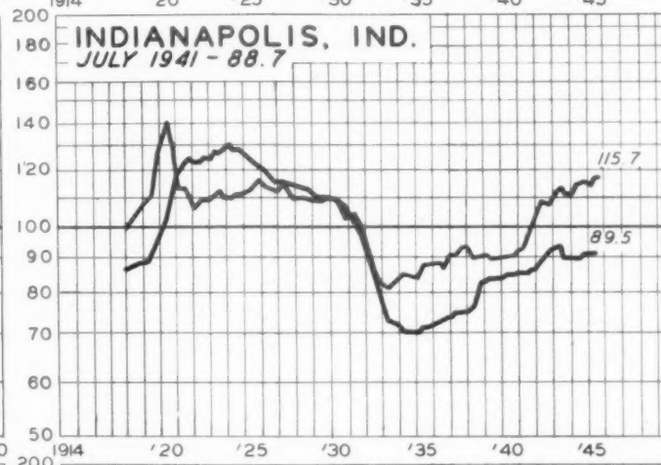


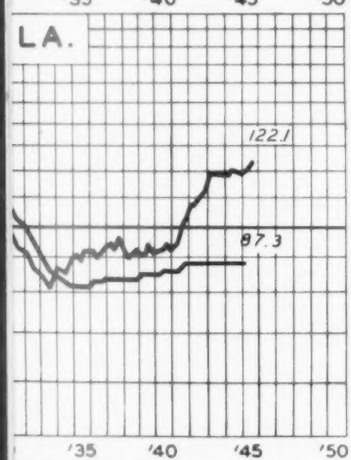


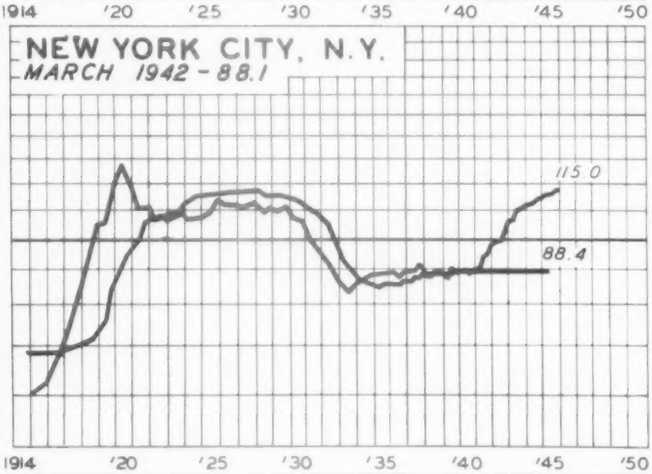


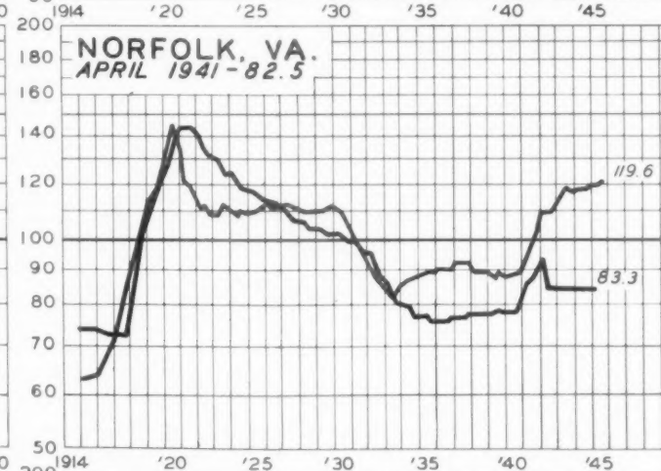


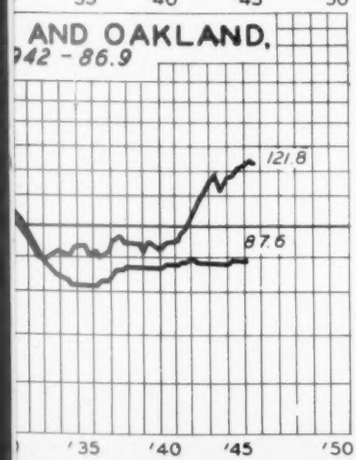


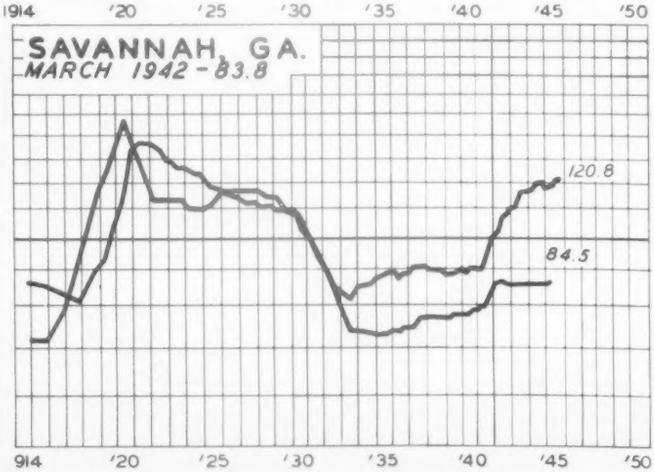


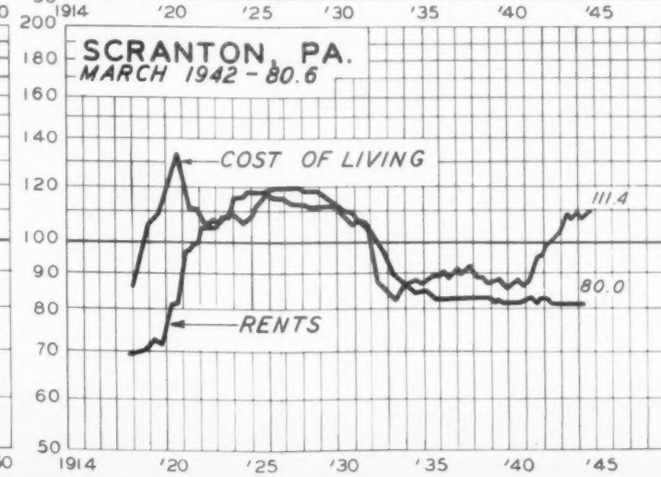


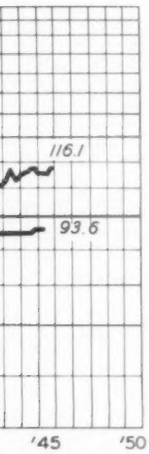


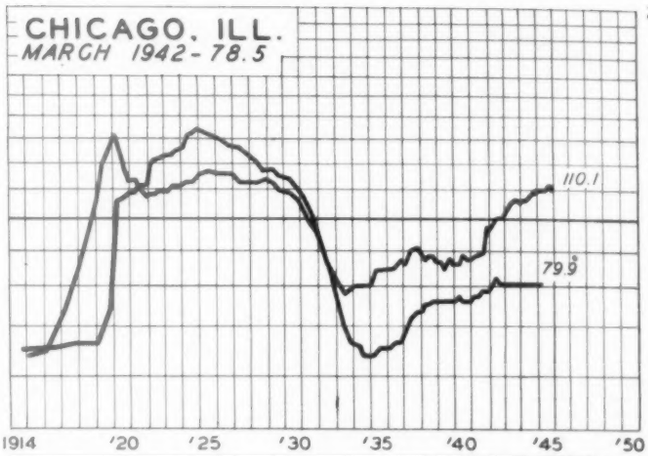


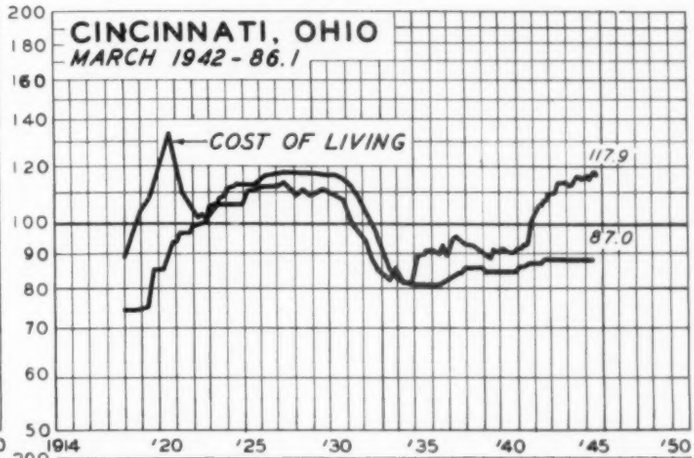


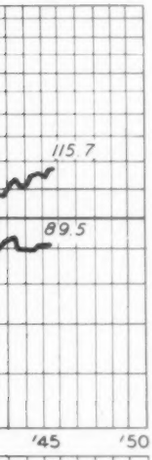


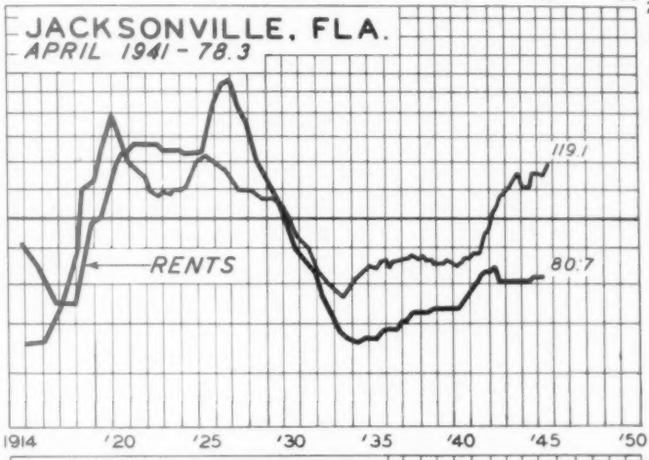


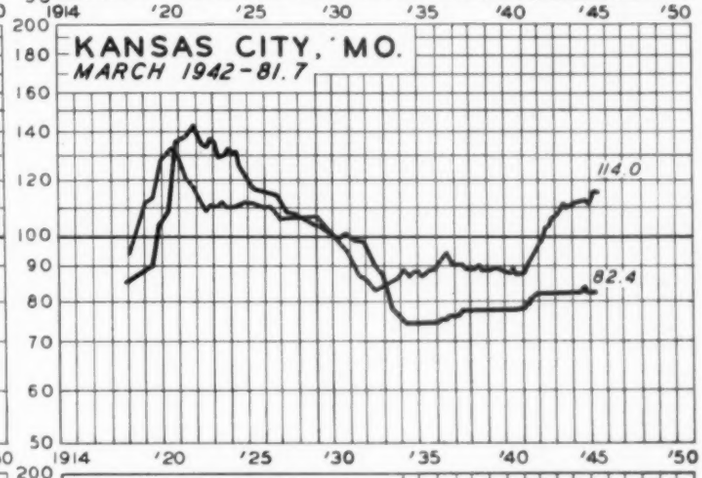

116.1
93.6
'45
'50

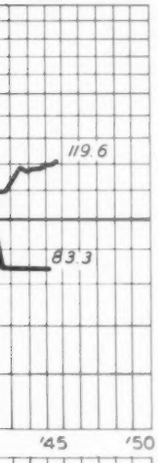

CHICAGO, ILL.
MARCH 1942 - 78.5
110.1
79.9
1914
'20
'25
'30
'35
'40
'45
'50

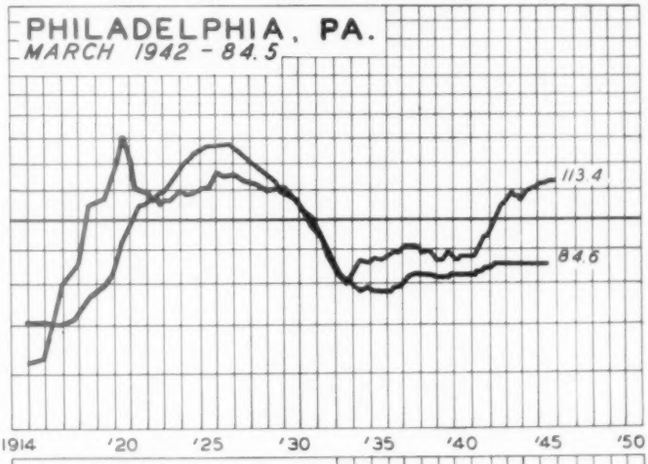

CINCINNATI, OHIO
MARCH 1942 - 86.1
COST OF LIVING
117.9
87.0
200
180
160
140
120
100
90
80
70
60
50
1914
'20
'25
'30
'35
'40
'45
'50

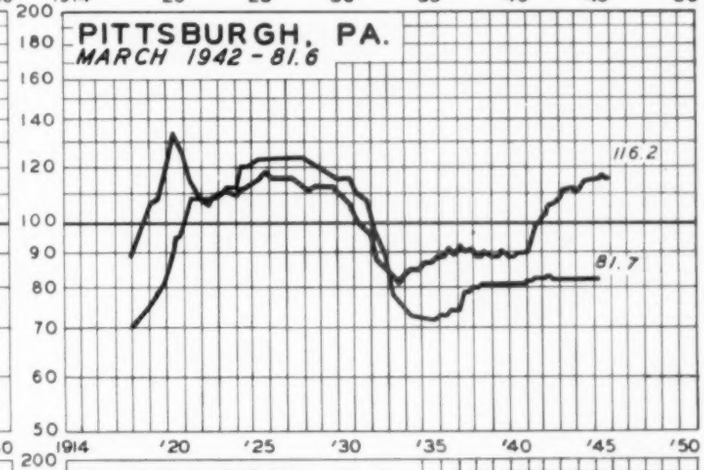

115.7
89.5
'45
'50

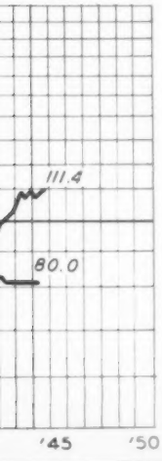

JACKSONVILLE, FLA.
APRIL 1941 - 78.3
RENTS
119.1
80.7
1914
'20
'25
'30
'35
'40
'45
'50

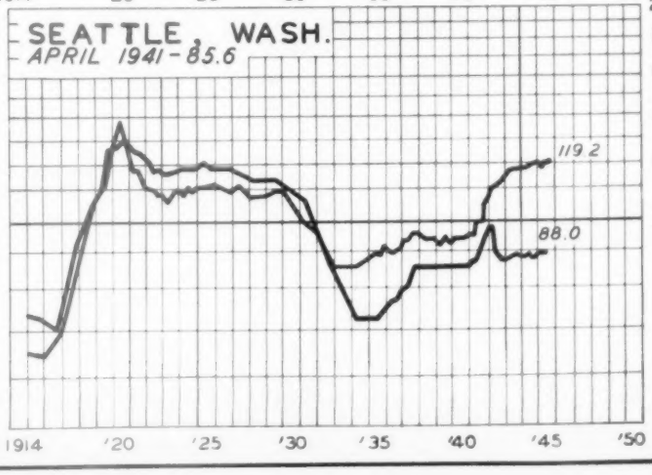

KANSAS CITY, MO.
MARCH 1942 - 81.7
114.0
82.4
200
180
160
140
120
100
90
80
70
60
50
1914
'20
'25
'30
'35
'40
'45
'50

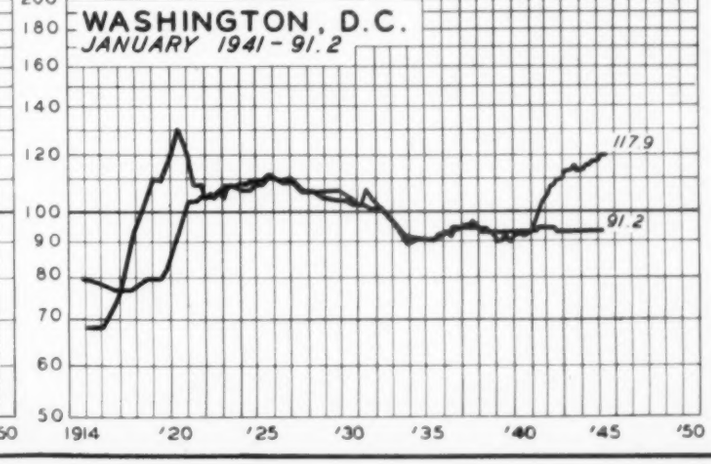

119.6
83.3
'45
'50


PHILADELPHIA, PA.
MARCH 1942 - 84.5
113.4
84.6
1914
'20
'25
'30
'35
'40
'45
'50


PITTSBURGH, PA.
MARCH 1942 - 81.6
116.2
81.7
200
180
160
140
120
100
90
80
70
60
50
1914
'20
'25
'30
'35
'40
'45
'50


111.4
80.0
'45
'50


SEATTLE, WASH.
APRIL 1941 - 85.6
119.2
88.0
1914
'20
'25
'30
'35
'40
'45
'50


WASHINGTON, D.C.
JANUARY 1941 - 91.2
117.9
91.2
200
180
160
140
120
100
90
80
70
60
50
1914
'20
'25
'30
'35
'40
'45
'50

(cont. from top page 341)

activity would constantly trend upward as the population of the United States increased. Families are used rather than individuals, as the larger percentage of voluntary transfers of real estate is on homes. Due to the change in the number of persons in a family, 1000 people today constitute 69 per cent more families than they did in 1850. Were population used as our correction in place of families, our line would be under-corrected and would still show a tendency to move up. It is entirely probable, however, that the family correction over-corrects the figures, as we have found a tendency for our line to gradually sink.

There is a strong seasonal movement in all real estate figures - that is, certain months show a definite tendency to be active and other months to be inactive. This definite seasonal pattern would have a tendency to conceal the actual improvement or retrogression of the figures. All figures are, therefore, adjusted mathematically for seasonal fluctuations.

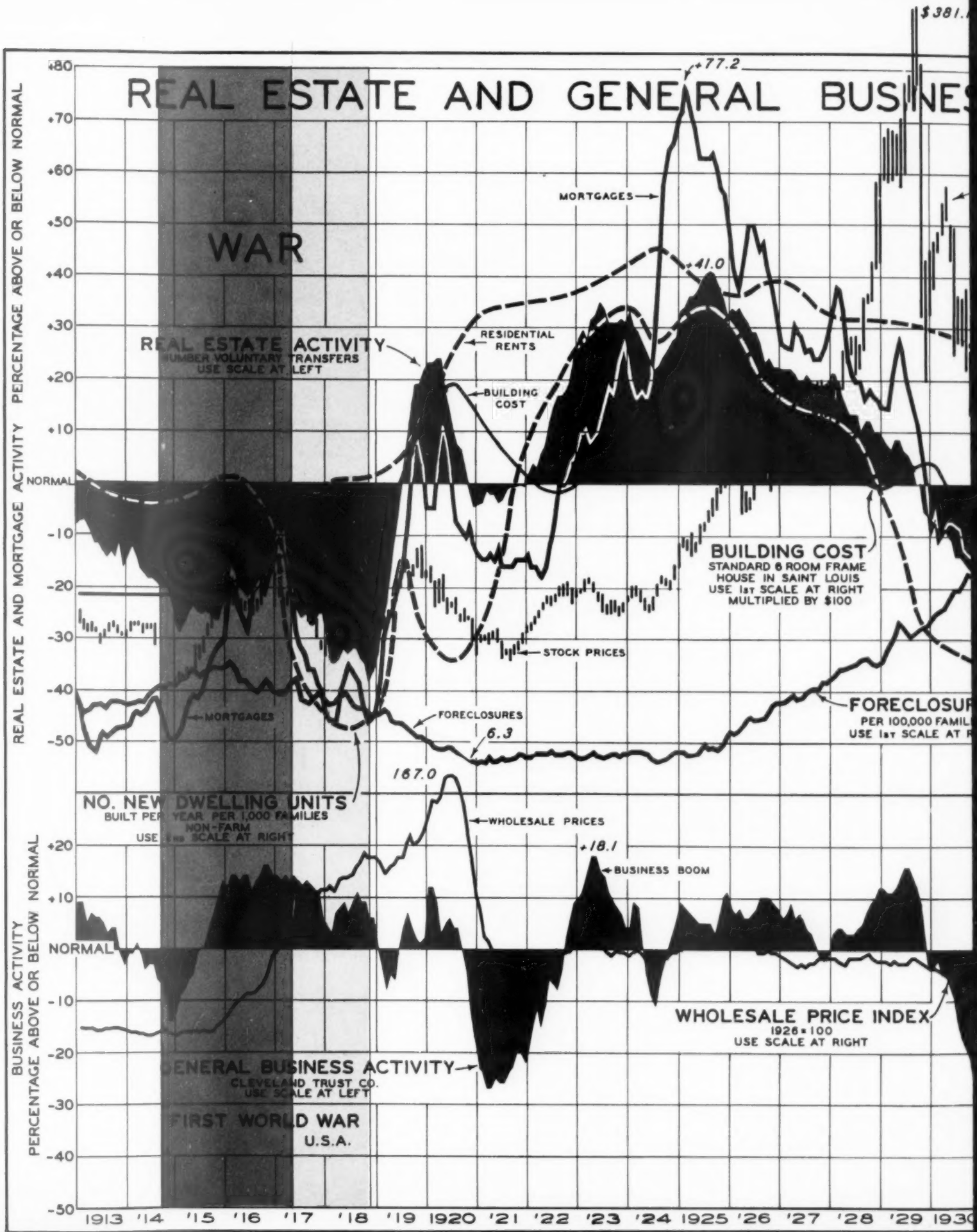
Normal at any time is an average of the past and future. For this reason, it is relatively easy to compute the normal for past cycles, as the future for definite points in the past is known and can be measured. It is relatively easy to compute the normal level of real estate activity for 1925, as we have the detailed measurements prior to that time and also we have now experienced 20 years of measured figures since. It is impossible, however, to determine exactly the normal at the present time, as no one knows with sufficient detail the developments of the period ahead.

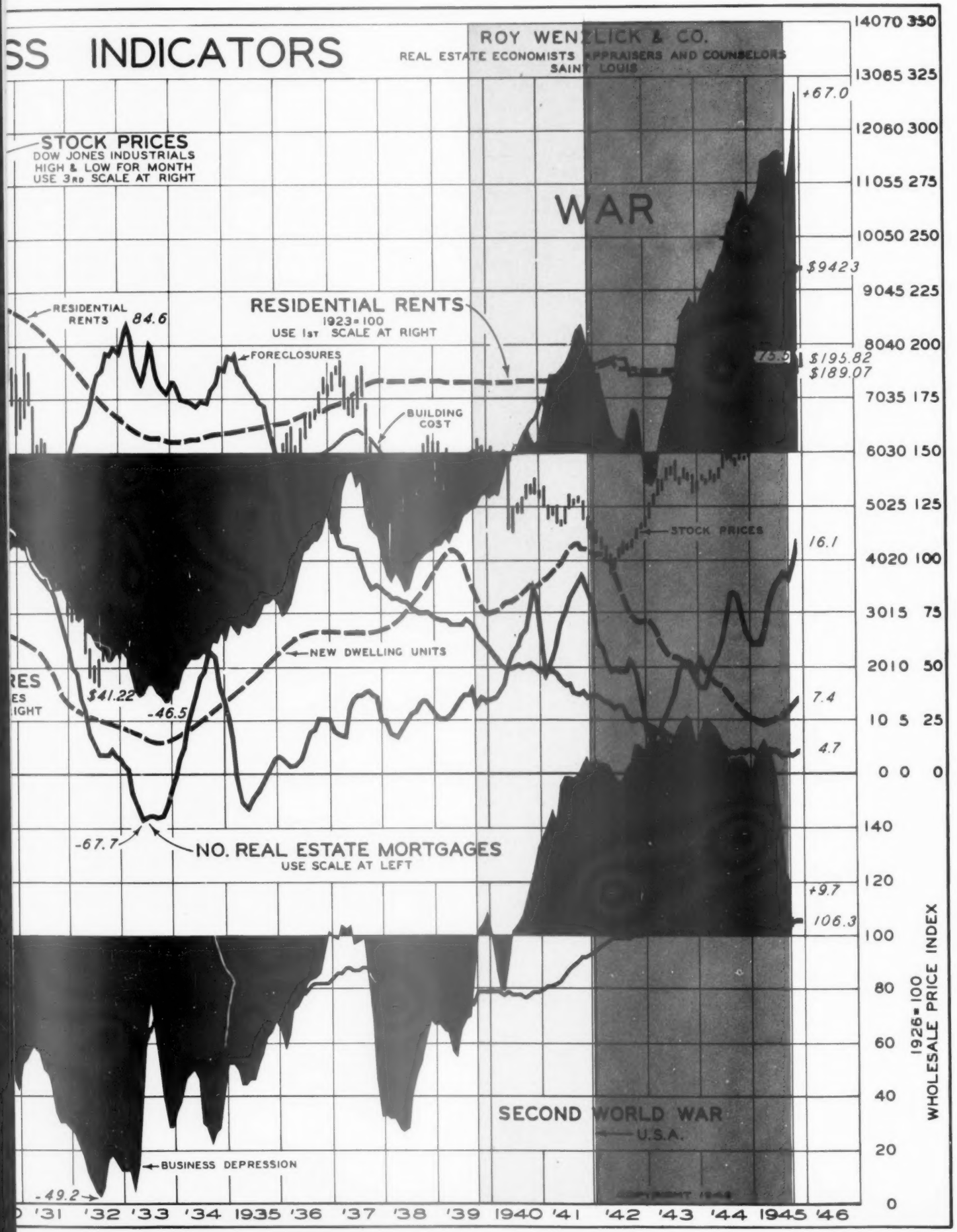
We had assumed that the normal was dropping and this assumption was based on a long-term trend which showed a gradual lowering of real estate activity. This seemed quite reasonable, as our charts on various cities show that in older matured cities real estate activity in relationship to the number of families has gradually dwindled. In the early life of a city there is a relatively high rate of turn-over of real estate in relationship to the number of families. As booms and depressions succeed each other, however, we find that each succeeding boom has a tendency to rise to a lower height than the one which preceded it. In matured countries, such as the countries of Europe, real estate activity is far less than it is in younger countries, like the United States and Canada. If our normal line is too low at the present time, activity on our general chart is slightly higher than it would otherwise be.

The chart on page 349 shows real estate transfers adjusted for families and for seasonal but without adjustment for trend. The red line is the assumed normal. There can be little doubt about this line prior to 1929.

Using 1926 as 100, real estate transfers in urban areas in November 1945 reached 106. This compares with a figure of 112 in the middle of 1925. Thus, in spite of the fact that real estate activity is further above "normal" than it has been at any time since 1889, the actual number of real estate transfers in relationship to the number of families is still slightly below the peak of the real estate boom of the twenties.

From time to time during the past few years we have been re-examining the question of a normal but each time we have felt that it was still too early to make any adjustments in our line. It seems now, however, that our assumption of a normal declining at the rate we have shown is incorrect in the current period and if real estate activity continues up, we will undertake a readjustment of this "normal" level.


REAL ESTATE AND GENERAL BUSINES
WAR
REAL ESTATE AND MORTGAGE ACTIVITY PERCENTAGE ABOVE OR BELOW NORMAL
BUSINESS ACTIVITY PERCENTAGE ABOVE OR BELOW NORMAL
+80
+70
+60
+50
+40
+30
+20
+10
NORMAL
-10
-20
-30
-40
-50
+77.2
+41.0
$381.
MORTGAGES
REAL ESTATE ACTIVITY
NUMBER VOLUNTARY TRANSFERS
USE SCALE AT LEFT
RESIDENTIAL RENTS
BUILDING COST
BUILDING COST
STANDARD 6 ROOM FRAME HOUSE IN SAINT LOUIS
USE 1st SCALE AT RIGHT MULTIPLIED BY $100
STOCK PRICES
MORTGAGES
FORECLOSURES
6.3
FORECLOSUR
PER 100,000 FAMIL
USE 1st SCALE AT R
167.0
NO. NEW DWELLING UNITS
BUILT PER YEAR PER 1,000 FAMILIES
NON-FARM
USE SCALE AT RIGHT
WHOLESALE PRICES
+18.1
BUSINESS BOOM
WHOLESALE PRICE INDEX
1926 = 100
USE SCALE AT RIGHT
GENERAL BUSINESS ACTIVITY
CLEVELAND TRUST CO.
USE SCALE AT LEFT
FIRST WORLD WAR
U.S.A.
1913 '14 '15 '16 '17 '18 '19 1920 '21 '22 '23 '24 1925 '26 '27 '28 '29 1930


SS INDICATORS
ROY WENZLICK & CO.
REAL ESTATE ECONOMISTS APPRAISERS AND COUNSELORS
SAINT LOUIS
STOCK PRICES
DOW JONES INDUSTRIALS
HIGH & LOW FOR MONTH
USE 3RD SCALE AT RIGHT
WAR
RESIDENTIAL RENTS
1923=100
USE 1ST SCALE AT RIGHT
RESIDENTIAL RENTS
84.6
FORECLOSURES
BUILDING COST
STOCK PRICES
NEW DWELLING UNITS
$41.22
-46.5
-67.7
NO. REAL ESTATE MORTGAGES
USE SCALE AT LEFT
-49.2
BUSINESS DEPRESSION
SECOND WORLD WAR
U.S.A.
+67.0
$9423
75.6
$195.82
$189.07
16.1
7.4
4.7
+9.7
106.3
14070 350
13085 325
12060 300
11055 275
10050 250
9045 225
8040 200
7035 175
6030 150
5025 125
4020 100
3015 75
2010 50
10 5 25
0 0 0
140
120
100
80
60
40
20
0
1926=100
WHOLESALE PRICE INDEX
'31 '32 '33 '34 1935 '36 '37 '38 '39 1940 '41 '42 '43 '44 1945 '46

URBAN REAL ESTATE TRANSFERS
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INDEX 1926 = 100
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
TRANSFERS
LONG TERM TREND
ASSUMED AS NORMAL
1913
1915
1920
1925
1930
1935
1940
1945

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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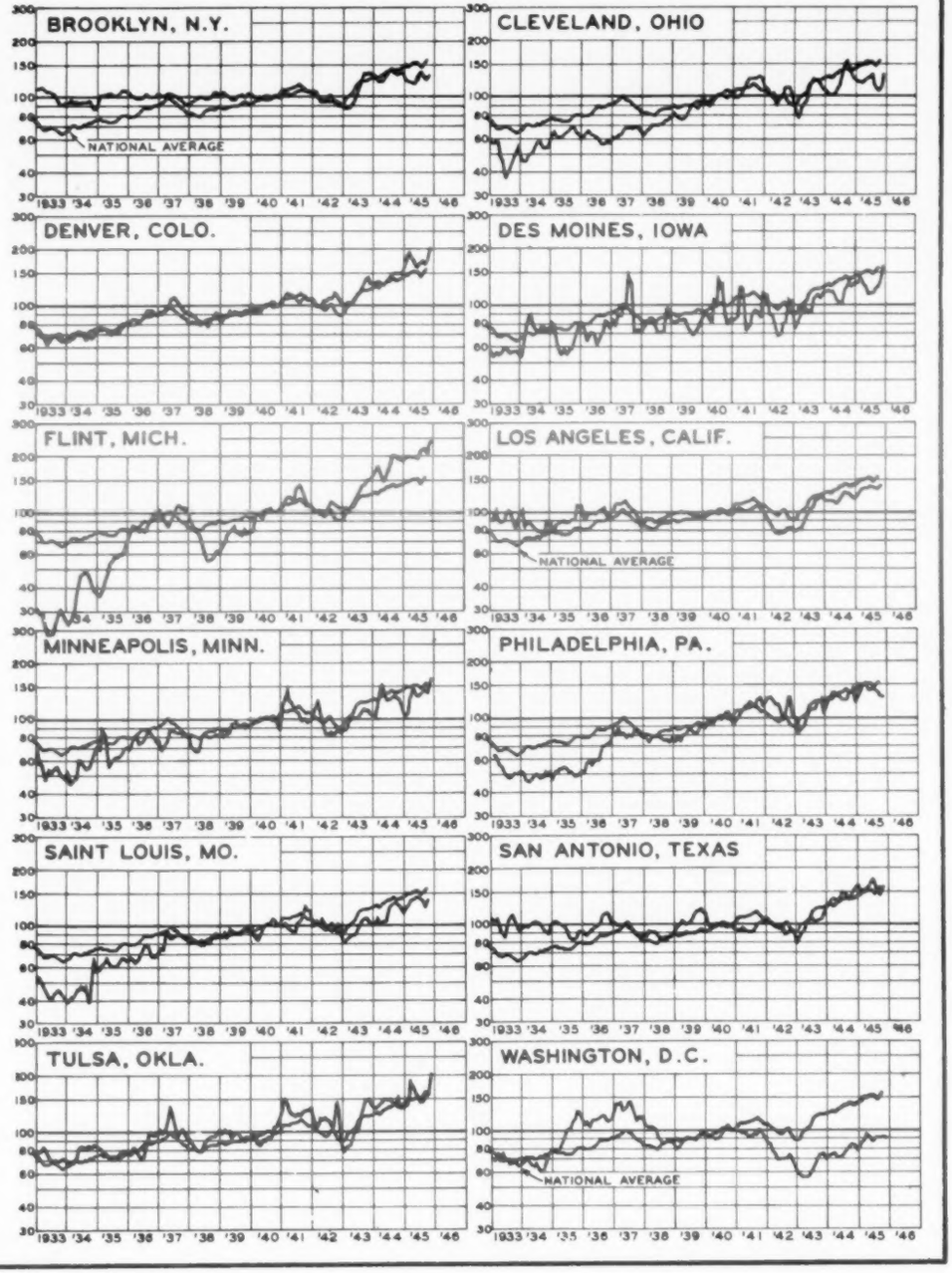
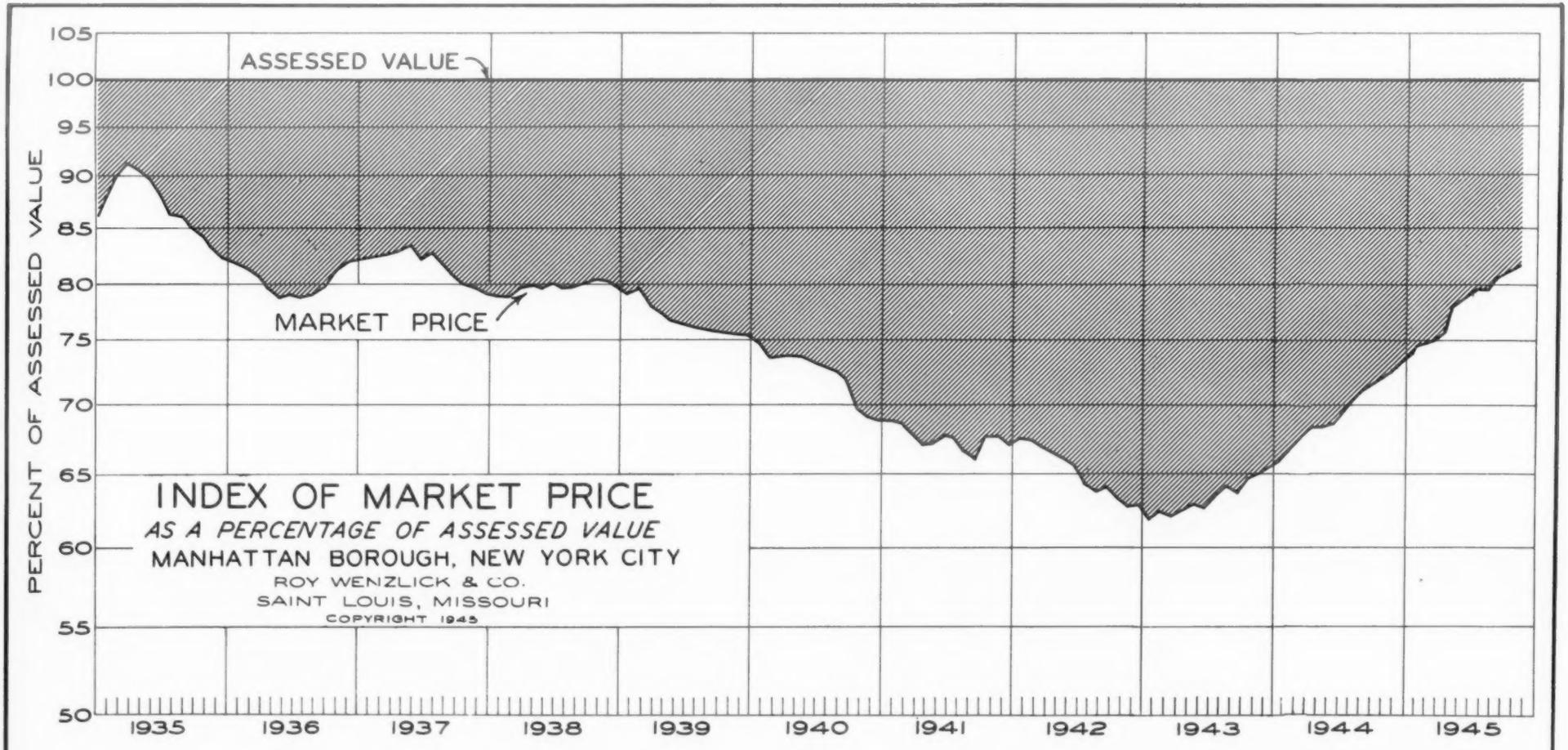




THE chart above shows the relationship of the market price of all open-market sales of real estate on Manhattan Island to the assessed value at the time of the sale. During this period the assessed values have dropped on many properties. This means that the drop in market price in relationship to assessed value from 1935 to 1943 was not so great as the actual drop in market prices.

In the spring of 1935 the market price of typical properties being sold in Manhattan averaged 91% of assessed values. By January 1943 a typical property was bringing 61.8% of its assessed value.

Since January 1943 there has been a marked improvement in Manhattan real estate. With comparatively few reversals the trend has been consistently up. This is the result of the housing shortage plus the fear of inflation.

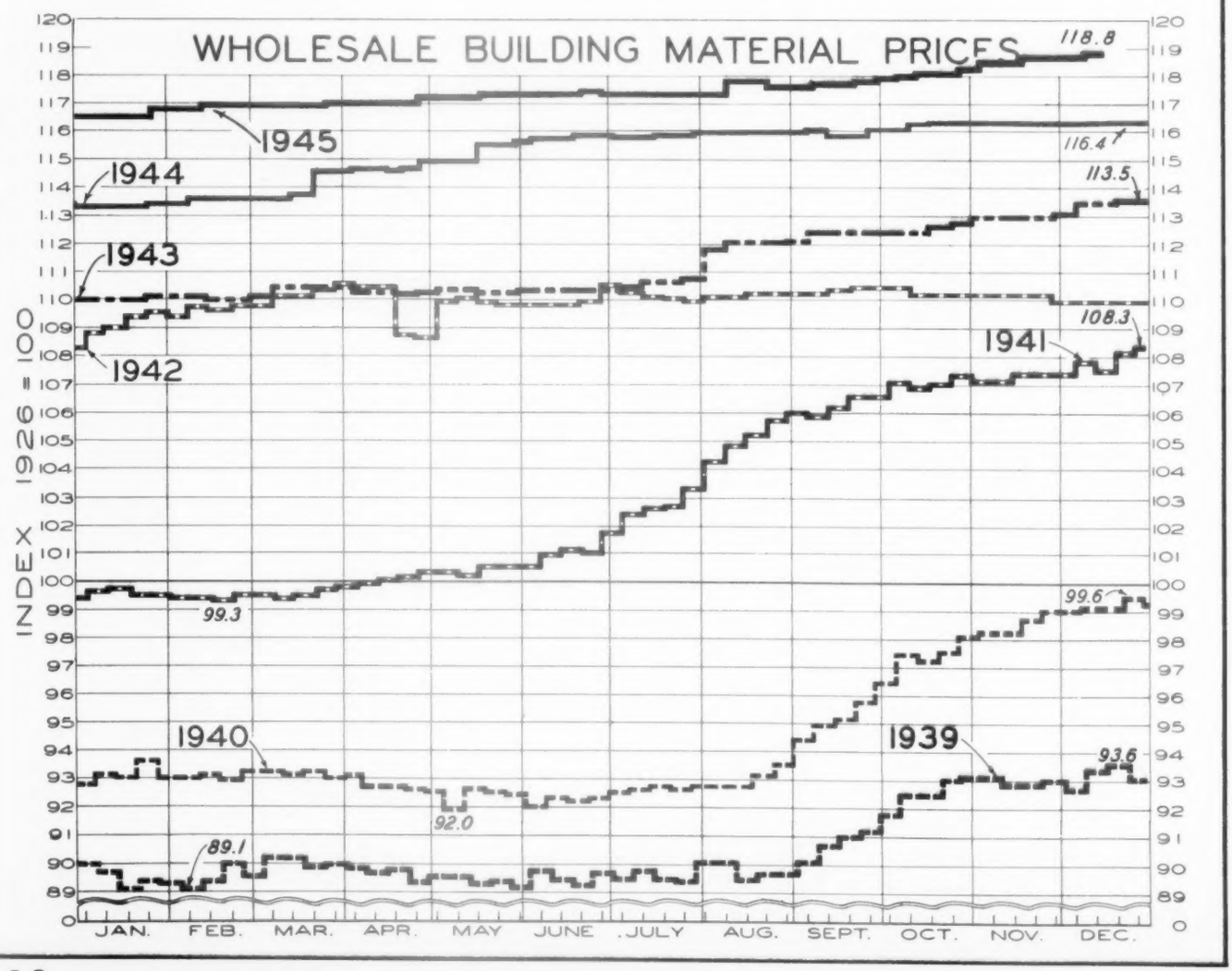
Since the end of the war an upward trend has been accelerating, but whether this movement will continue after demobilization activity in the New York Area is over is still undeterminable at present.

DWELLING UNITS CONSTRUCTED IN 48 STATES

THE number of new family accommodations built in all nonfarm communities of the 48 States and the District of Columbia is shown in the table below. Cumulative totals and twelve month moving totals are shown in blue for 1942 and 1944 and in red for 1943 and 1945.

THOUSANDS OF UNITS

	MONTHLY				CUMULATIVE				12 MONTH MOVING TOTAL			
	1942	1943	1944	1945	1942	1943	1944	1945	1942	1943	1944	1945
JANUARY	34.5	45.0	17.3	7.7	34.5	45.0	17.3	7.7	708.5	507.1	322.3	159.4
FEBRUARY	51.3	40.1	13.5	8.5	85.8	85.1	30.8	16.2	716.1	495.9	295.7	154.4
MARCH	52.7	33.0	18.1	13.2	138.5	118.1	48.9	29.4	708.6	476.2	280.8	149.5
APRIL	59.7	26.7	14.3	20.5	198.2	144.8	63.2	49.9	693.1	443.2	268.4	155.7
MAY	60.6	33.6	16.5	19.4	258.8	178.4	79.7	69.3	683.0	416.2	251.3	158.6
JUNE	46.3	21.8	17.5	20.4	305.1	200.2	97.2	89.7	652.1	391.7	247.0	161.5
JULY	26.7	24.2	14.5	23.3	331.8	224.4	111.7	113.0	604.2	389.2	237.3	170.3
AUGUST	27.5	27.6	12.8	20.2	359.3	252.0	124.5	133.2	561.9	389.3	222.5	177.7
SEPTEMBER	40.4	24.3	11.3	22.0	399.7	276.3	135.8	155.2	535.3	373.2	209.5	188.4
OCTOBER	32.2	28.1	10.8	29.8	431.9	304.4	146.6	185.0	511.3	369.1	192.2	207.4
NOVEMBER	30.4	26.1	11.6	31.2	462.3	330.5	158.2	216.2	495.1	364.8	177.7	227.0
DECEMBER	34.3	19.5	10.8		496.6	350.0	169.0		496.6	350.0	169.0	



THE REAL ESTATE ANALYSTS

APPRAISAL BULLETIN

PUBLISHED IN THE INTERESTS OF REAL ESTATE ANALYST SUBSCRIBERS BY

ROY WENZLICK & CO.

Real Estate Economists, Appraisers and Counselors

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Roy Wenzlick
Editor

THE RELATIONSHIP OF REAL ESTATE RENT TO BUSINESS VOLUME

THE appraisal process is greatly simplified when the actual rent measures the full usefulness of the real property or when the rental value can be estimated with reasonable accuracy. This is the case especially with business properties such as retail merchandising types, service establishments and other types of an enterprise nature.

Prior to the twenties there was little accomplished in determining any relationship of real estate rent to the volume of business which could be profitably done for different types of commercial use and for different types of merchandise. Then both the landlord and the tenant agreed upon the rent to be paid for a specific location, often for many years in the future, after much haggling and clashing of viewpoints. The attitudes of lessor and lessee are basically in sharp conflict because the former attempts to obtain the largest net income with the least amount of risk while the latter seeks the most favorable arrangement at the least cost to him.

It is evident that the highest rental value and therefore the value of any specific retail location depends upon the most intensive use of that location. The most intensive use of a retail outlet occurs only when there is a combination of the several favorable factors which create its highest use. These favorable factors can be classified as follows: 1. the tenant is a capable and experienced merchant, possessing financial responsibility and an established good will; 2. the space is physically suited in size and layout for its proposed use; 3. the merchandise or services sold are the most logical in kind, quality and price class in view of the purchasing power directly accessible to the location; and 4. the tenant will advertise to the extent that the marginal utility of the location warrants.

When all of these favorable factors are present a maximum volume of business can be done at a particular location commensurate with the economic conditions existing at the time. If any of these factors is absent then less than a maximum volume can be expected. There are many leases in existence today in which all of the favorable factors are present; at the same time, there are many others in which one or more factors are absent. It will be noticed that the volume of business resulting from the favorable factors as defined above depends primarily on tenant selection. There are other influences which affect business volume which are independent of tenant selection.

The following influences directly affect the purchasing power accessible to the location. 1. Changes in purchasing power caused by trends or shifts in locality of business activity definitely increase or decrease volume of

THE RELATIONSHIP OF REAL ESTATE RENT TO BUSINESS VOLUME

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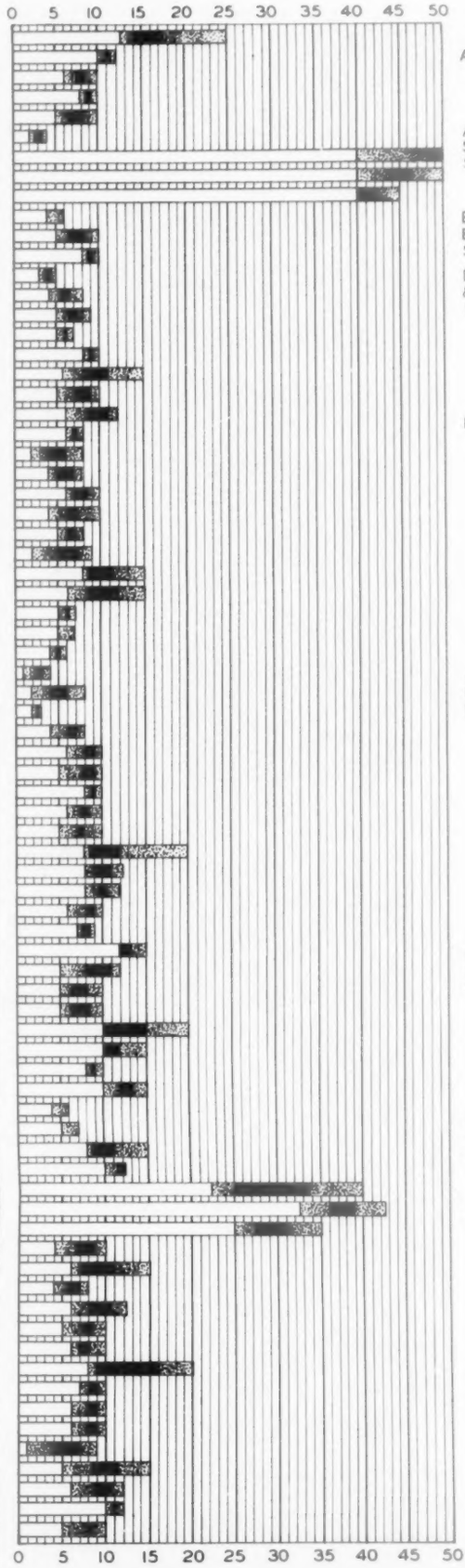

- AMUSEMENTS
  - MOTION PICTURES
  - BOWLING ALLEYS & POOL ROOMS
  - SPORTING GOODS
- AUTOMOBILE - SALES & SERVICE
  - SALES
    - GARAGES - SALE OF GAS & OIL
    - AUTO ACCESSORIES
    - AUTO AGENCIES
  - SERVICE
    - PARKING LOTS
    - GARAGES
    - GARAGES - STORAGE
- BUSINESS EQUIPMENT & SUPPLIES
  - OFFICE APPLIANCES
  - PENS, CARDS & SPECIALTIES
  - STATIONARY
- DEPARTMENT & VARIETY STORES
  - DEPARTMENT STORES
  - 5 & 10 OR 25 TO $2.00
- HOUSEHOLD
  - APPLIANCES
    - HOUSEHOLD APPLIANCES & RADIOS
    - ELECTRICAL GOODS
  - FURNITURE & FURNISHINGS
    - SILVERWARE
    - LINENS
    - ANTIQUES
    - ART & GIFT SHOPS
    - CHINA & GLASSWARE
    - FURNITURE
    - RUGS
    - PIANOS & MUSICAL INSTRUMENTS
  - MAINTENANCE
    - PAINT & WALLPAPER SUPPLIES
    - HARDWARE
- MARKETS, FOODS & BEVERAGES
  - MARKETS
    - BAKERIES
    - CANDY & NUTS
    - FRUIT & VEGETABLE STORES
    - DELICATESSENS & DAIRY PRODUCTS
    - FISH & SEA FOOD MARKETS
    - MEAT MARKETS
    - GROCERY STORES, CHAIN
    - GROCERY STORES, ORDINARY
    - SUPER MARKETS
  - RESTAURANTS
    - CAFETERIAS
    - LUNCHEONETTES, LUNCHROOMS & FOUNTAIN LUNCHES
    - TEA ROOMS
  - BEVERAGES
    - COCKTAIL LOUNGES
    - TAVERNS
    - LIQUOR STORES
- PERSONAL EFFECTS & SERVICE
  - EFFECTS
    - OPTICIANS, OPTOMETRISTS & OPTICAL STORES
    - PHOTOGRAPHERS
    - FLORISTS
    - TRUNKS & LEATHER GOODS
    - CAMERAS & SUPPLIES
    - BOOKS, SECOND HAND
    - BOOKS & STATIONARY
    - CIGARS, CIGARETTES & TOBACCO
    - DRUGS
  - SERVICE
    - BEAUTY SHOPS
    - BARBER SHOPS
    - CLEANING & DYEING
    - SHOE REPAIR
- PROFESSIONAL EQUIPMENT & SUPPLIES
  - DENTAL SUPPLIES
  - SURGICAL SUPPLIES
  - DRUGS, PRESCRIPTIONS
  - ENGINEERS & ARCHITECTURAL SUPPLIES
- RESIDENTIAL PROPERTY
  - COMMERCIAL HOTEL ROOMS
  - APARTMENT HOTELS
  - ROOMING HOUSES
- WEARING APPAREL
  - INFANT'S & CHILDREN'S WEAR
  - MEN'S WEAR & ACCESSORIES
    - FURNISHINGS
    - CLOTHING
    - HATS
    - SHOES
    - TAILORS
  - WOMEN'S WEAR & ACCESSORIES
    - MILLINERY
    - COTTON WEAR
    - FURNISHINGS
    - HOSIERY
    - DRESSES, SUITS & COATS
    - JEWELRY & COSTUME JEWELRY
    - FURS
    - COSMETICS
    - SHOES

business, depending on whether the movement is toward or away from the specific location under consideration. This is a gradual though definite movement which in a decade may change the entire nature of merchandising in the district. 2. Changes in purchasing power caused by changing general economic conditions increase or decrease business volume although the locational advantages and logical tenancy of the retail outlet remain unchanged.

Before the advent of measuring rent from business volume by the percentage lease, these expected changes in business volume from changes in purchasing power were the cause of much haggling over the length of the lease and its terms. Both landlord and tenant sought to secure in the lease those times, terms and conditions which appeared to their advantage. The time of making the lease was then quite important. The so-called step-up lease was a popular type for a long-term lease although a step-down lease in many instances would have been a more equitable arrangement. However, we have found no records of any step-down leases being made.

During the past twenty years, especially, the percentage lease has become increasingly popular; it is an outstanding improvement over the old type fixed sum rent lease or the step-up rent lease. The percentage lease permits longer term leases and provides a more equitable agreement between landlord and tenant. While the percentage lease does not remove the care required in the tenant selection which will create the maximum of business as described above, it does provide for automatic adjustments in rent for changes caused by shifts in business activity and for changes in purchasing power caused by changing economic conditions.

If the interests of landlord and tenant are analyzed we find that the former's interests consist solely of the capacity for use comprising the physical property and its location with accessibility to potential purchasing power. This capacity has no value in itself. It is only when a suitable lessee is secured who can use the capacity that value is created. The extent to which the lessee uses the capacity of the lessor determines the rental value of the property. It is always the lessor's responsibility to make the final selection of the lessee. This selection may not create the most intensive use of the location and the period of the lease may be too long. Naturally, in such a case any penalty which accompanies a selection of an illogical lessee accrues to the lessor. For these reasons we do not believe in a minimum rent that is above the economic rent based upon a percentage of volume of business at any time, especially in a period of depression. At a time of economic distress it is highly unfair to expect the lessee to carry the real estate by an excessive minimum rent. Likewise, we do not believe the lessor should be limited by a maximum rent from enjoying the full rent in times of great business activity.

A commercial lease is a mutual undertaking and both lessor and lessee are dependent upon each other for its success. The lessor's interests are not so important that he should be given any advantage over the lessee; if a preference should be made, which is considered doubtful, it should be given to the lessee who creates the value of the location through use, in spite of the fact that the lessor may have made large expenditures of capital and labor in acquiring the land and constructing the improvements. As stated in several previous bulletins it is not the cost of creating capacity which determines value but the use of the capacity.

The measurement of the rent of commercial properties by the percentage lease is a relatively modern development. During the past twenty years it has become increasingly important in all urban centers throughout the country because it is based upon sound economic principles. The National Association of Real Estate Boards has assembled valuable data from member Realtors who are experienced in this important field of the real estate business, and has classified and published the data for many types of businesses for the benefit of all who can use them to advantage. The chart on page 2 has been prepared from these published reports and from other sources deemed reliable.

It will be noticed from the chart that the published data are very indefinite although many explanatory notes are included. At first glance the spread in rates seems quite unreasonable and it would almost appear that there is little economic relationship between rent and business volume. Some of the more important reasons for unreasonable spread in rates are:

1. The tenant selection was improper and unsuited to the passing purchasing power. 2. The leasing agent lacked a comprehensive knowledge of retailing or assumed the position of an advocate for either the lessor or lessee instead of the professional status of a specialist. 3. The quality and mark-up of different types of merchandise sold require split rates instead of a single composite rate. 4. In many cases differences in the amount of services are included in the rent, such as heating, water and other services; in other instances the tenant pays, in addition to the rent, maintenance and repair, taxes, etc.

Whenever volume of business is not dependent upon the accessibility of the location to purchasing power and the tenant must depend upon other mediums to secure its business, such as traveling salesmen in wholesale houses or direct mail and catalogs in mail order houses, then there is no relationship between rent and business volume and a percentage lease becomes meaningless. The same principle is involved in large retail outlets in the environs of all metropolitan centers designed primarily for the automobile shopper. Most of them have little locational advantage and volume of business done depends on the city-wide appeal and good will of the tenant and upon extensive institutional and newspaper advertising. In such cases the percentage lease is not applicable and any return from good will and advertising should be credited to the enterprise (see Appraisal Bulletin #25).

Percentage lease data are of vital importance to the appraiser whose practice includes the appraisal of commercial properties and of other properties of an enterprise type when use is measured by a volume of business. The estimate of rental value is often the most essential factor in the appraisal process and the percentage lease becomes one of the guides which assist the appraiser in such estimates. The appraiser must have a thorough knowledge of retail operations; he must be competent to estimate an economically sound rent volume relationship for any type of use and also must be able to judge whether actual rents are the result of a temporarily favorable or unfavorable lease.

A. B. Kissack

A. B. KISSACK, M.A.I.

THE REAL ESTATE ANALYSTS

R. E. TAX BULLETIN

DECEMBER 1945

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Roy Wenzlick
Editor

VOLUME XIV

AVERAGE PUBLIC DEBT PER FAMILY

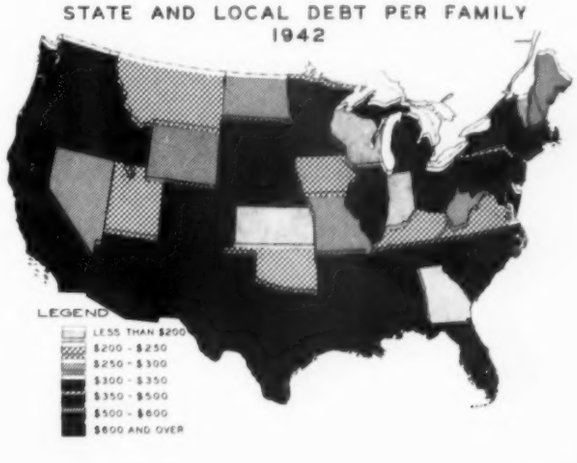
IN December 1937 we issued our first bulletin on the average local public debt per family for each city with more than 100,000 population in 1930. Since then we have brought that study up to date, charting city by city and year by year from 1909 the average public debt per family exclusive of Federal and State debt. The figures charted cover local funded fixed debt minus sinking fund assets. They do not include special assessment indebtedness. They include debt incurred by the municipal government for general government property, police and fire departments, sewers, highways, hospitals, schools and libraries, parks and playgrounds, and all other purposes except when covered by short-term loans, which are to be amortized by special assessments.

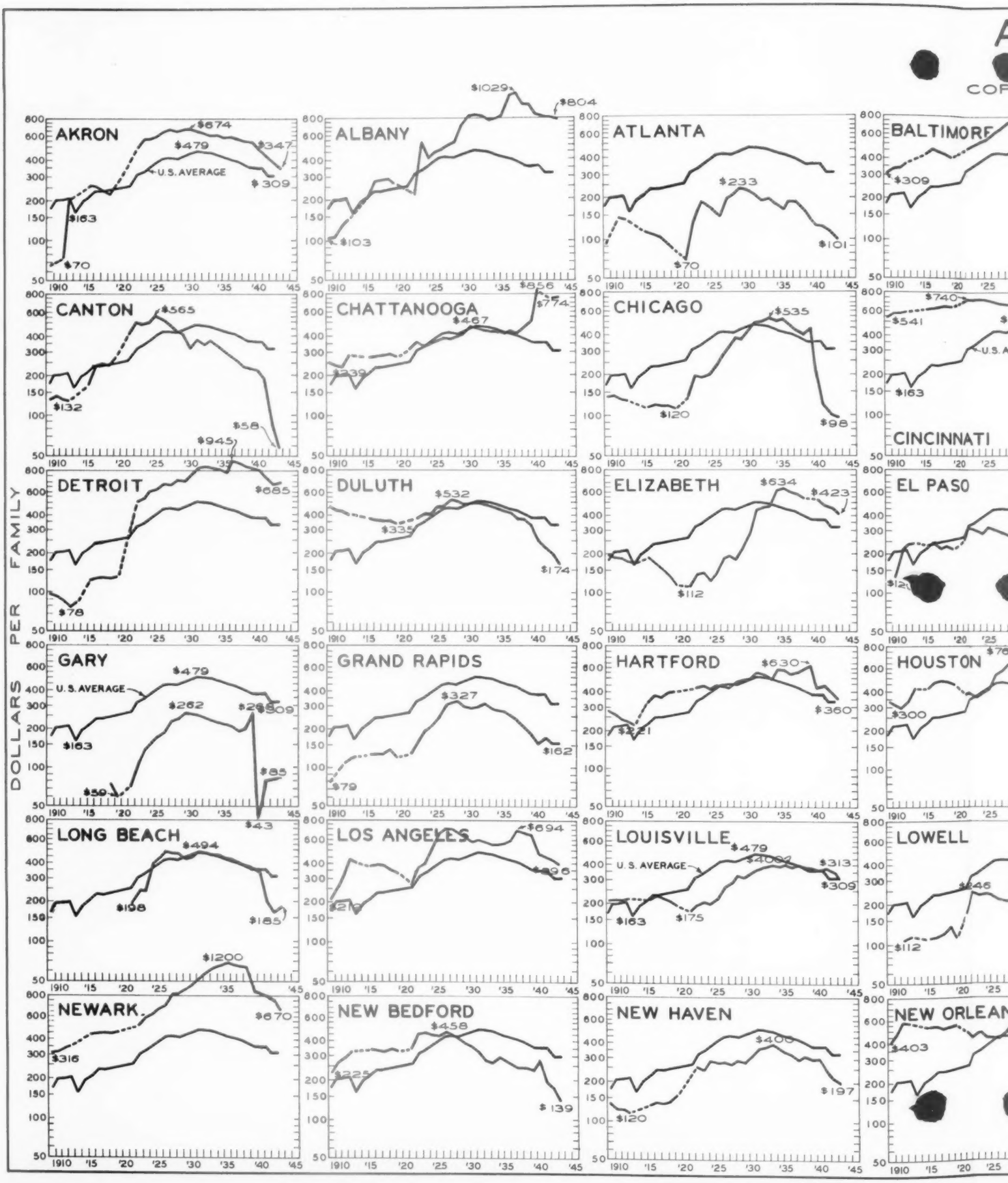
The 94 charts on the following pages are all drawn exactly to the same scale. It will be noticed that each chart contains a red line in addition to the line which shows the experience of the particular city. The red line is the same on all charts and shows the typical public debt in the principal cities of the United States. By typical public debt we mean an amount in dollars each year which is exceeded that year by as many cities as are below it. It will be noticed that this typical local debt per family has been declining generally since 1932, the period in which the national debt has been soaring to astronomical levels.

These averages for all cities are given below:

1932 - $474	1935 - $434	1938 - $388	1941 - $343
1933 - 472	1936 - 432	1939 - 358	1942 - 30[illegible]
1934 - 457	1937 - 406	1940 - 353	1943 - 309

The map to the right shows the average State and local net long-term debt per family by States. The figures on which this map is based were recently made available through the tenth decennial Census of Governments. All local units of government are covered, including counties, cities, townships, school districts and special districts. New York State showed the highest combined State and local debt per family, $1228. Kansas with $124 ranked lowest.




DOLLARS PER FAMILY
AKRON
$674
$479
$347
U.S. AVERAGE
$309
$163
$70
ALBANY
$1029
$804
$103
$856
ATLANTA
$233
$101
$70
BALTIMORE
$309
CANTON
$565
$132
$58
$945
CHATTANOOGA
$467
$774
$239
CHICAGO
$535
$120
$98
CINCINNATI
$740
$541
$163
DETROIT
$685
$78
DULUTH
$532
$335
$174
ELIZABETH
$634
$423
$112
EL PASO
GARY
$479
U.S. AVERAGE
$262
$163
$50
$85
$43
GRAND RAPIDS
$327
$162
$79
HARTFORD
$630
$360
$221
HOUSTON
$300
LONG BEACH
$494
$198
$185
$1200
LOS ANGELES
$694
$210
LOUISVILLE
$479
U.S. AVERAGE
$313
$309
$163
$175
LOWELL
$112
NEWARK
$670
$316
NEW BEDFORD
$458
$225
$139
NEW HAVEN
$405
$197
$120
NEW ORLEAN
$403
1910 '15 '20 '25 '30 '35 '40 '45
50 100 150 200 300 400 600 800

AVERAGE PUBLIC DEBT PER FAMILY

EXCLUSIVE OF FEDERAL AND STATE

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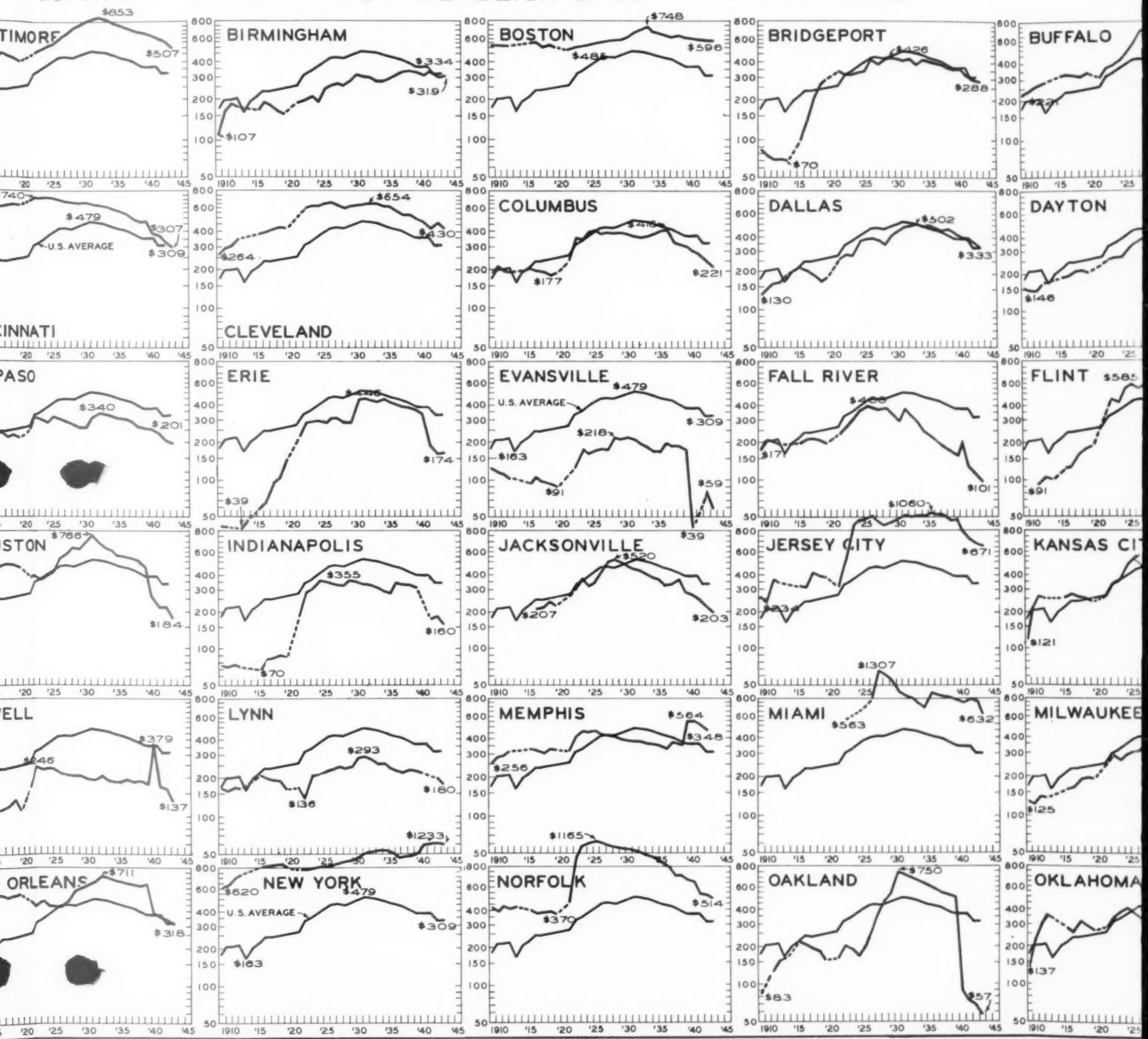

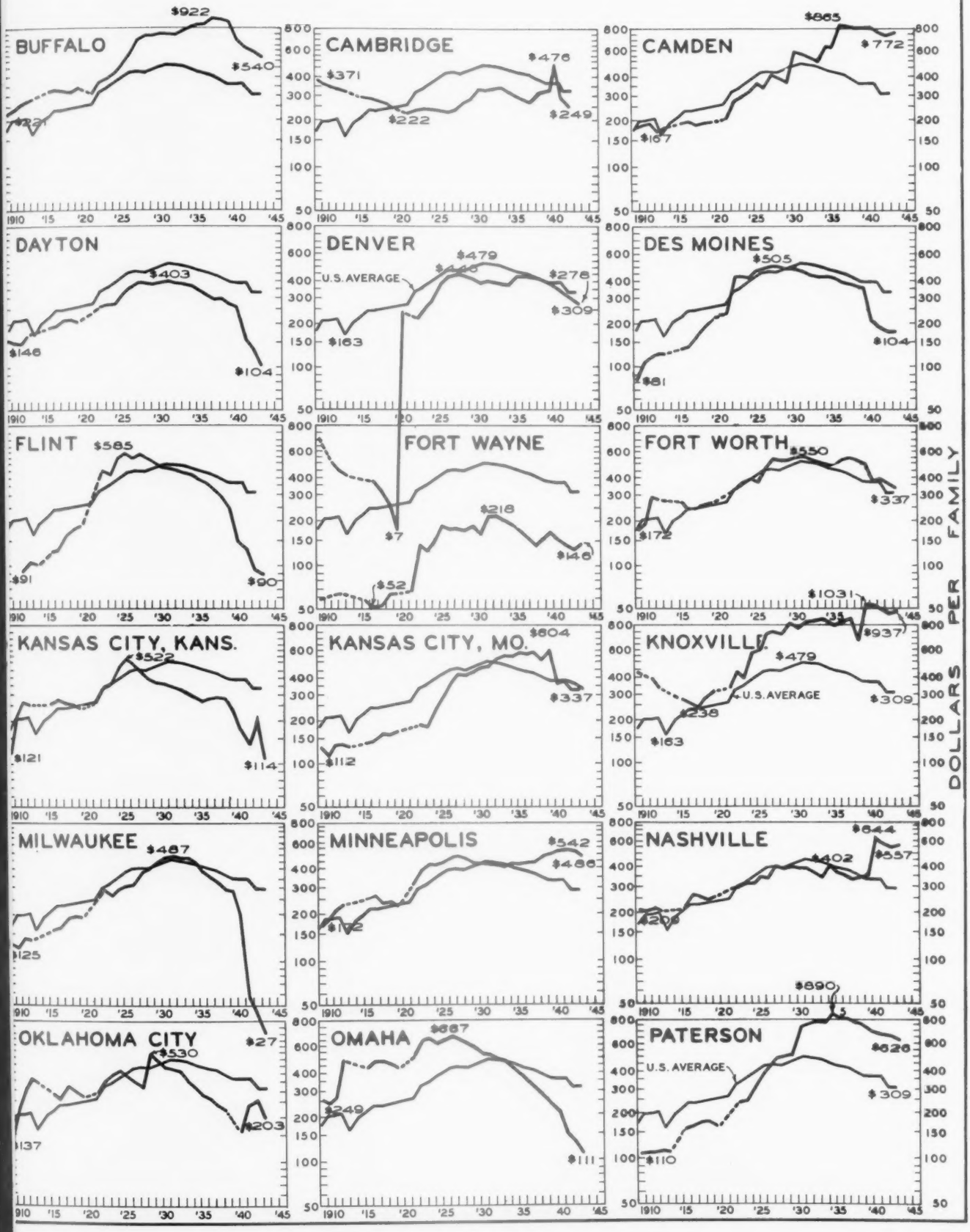
BUFFALO
$922
$540
CAMBRIDGE
$371
$476
$222
$249
CAMDEN
$865
$772
$167
DAYTON
$403
$146
$104
DENVER
U.S. AVERAGE
$479
$278
$309
$163
DES MOINES
$505
$104
$81
FLINT
$585
$91
$90
FORT WAYNE
$218
$7
$52
$146
FORT WORTH
$550
$337
$172
$1031
KANSAS CITY, KANS.
$522
$121
$114
KANSAS CITY, MO.
$804
$337
$112
KNOXVILLE
$937
$479
U.S. AVERAGE
$309
$238
$163
MILWAUKEE
$487
$125
MINNEAPOLIS
$542
$486
$172
NASHVILLE
$644
$557
$402
$206
$890
OKLAHOMA CITY
$530
$203
$137
OMAHA
$887
$249
$111
PATERSON
U.S. AVERAGE
$626
$309
$110
DOLLARS PER FAMILY
1910 '15 '20 '25 '30 '35 '40 '45
50 100 150 200 300 400 600 800

AVERAGE PUBLIC DEBT

EXCLUSIVE OF FEDERAL

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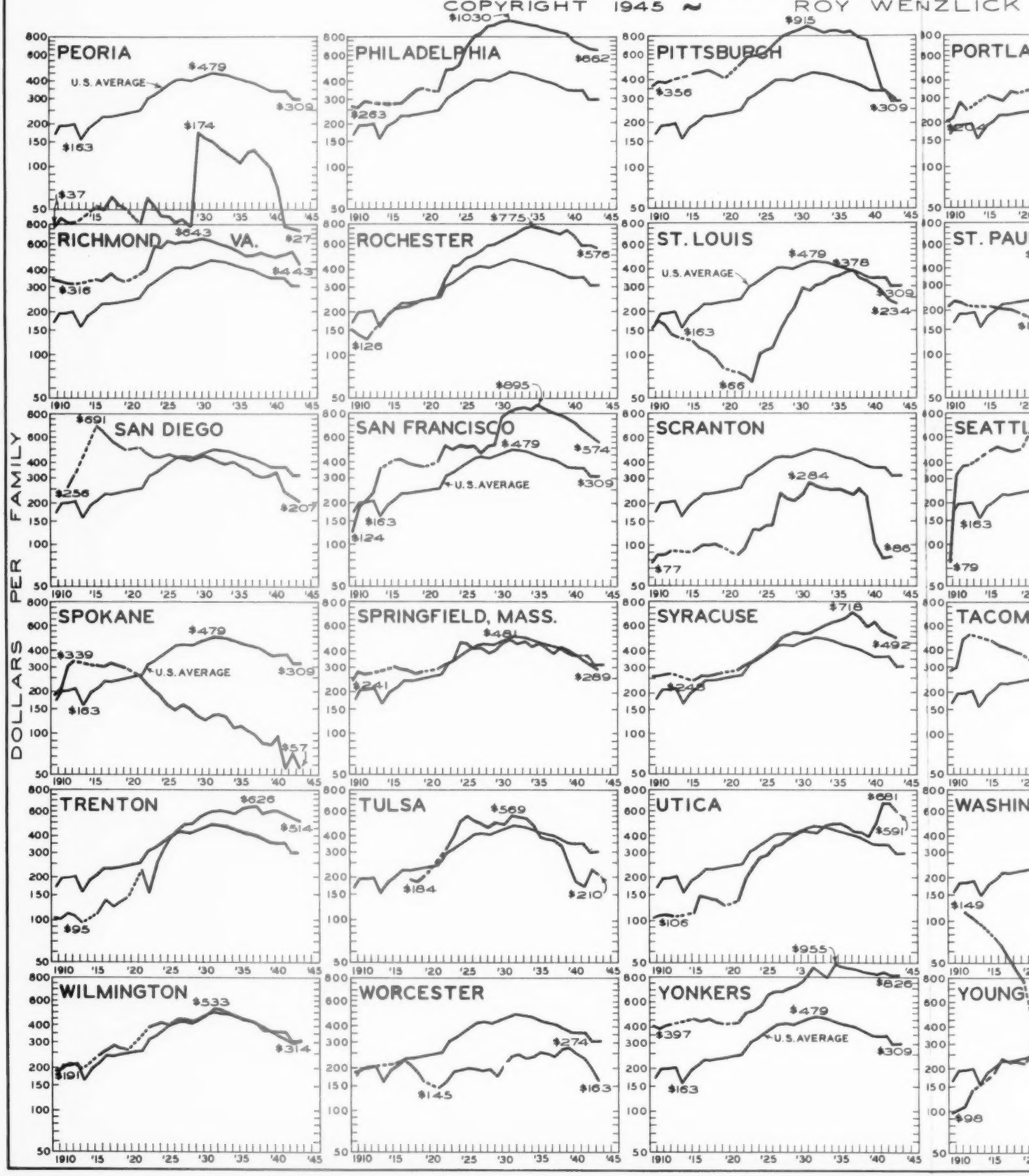
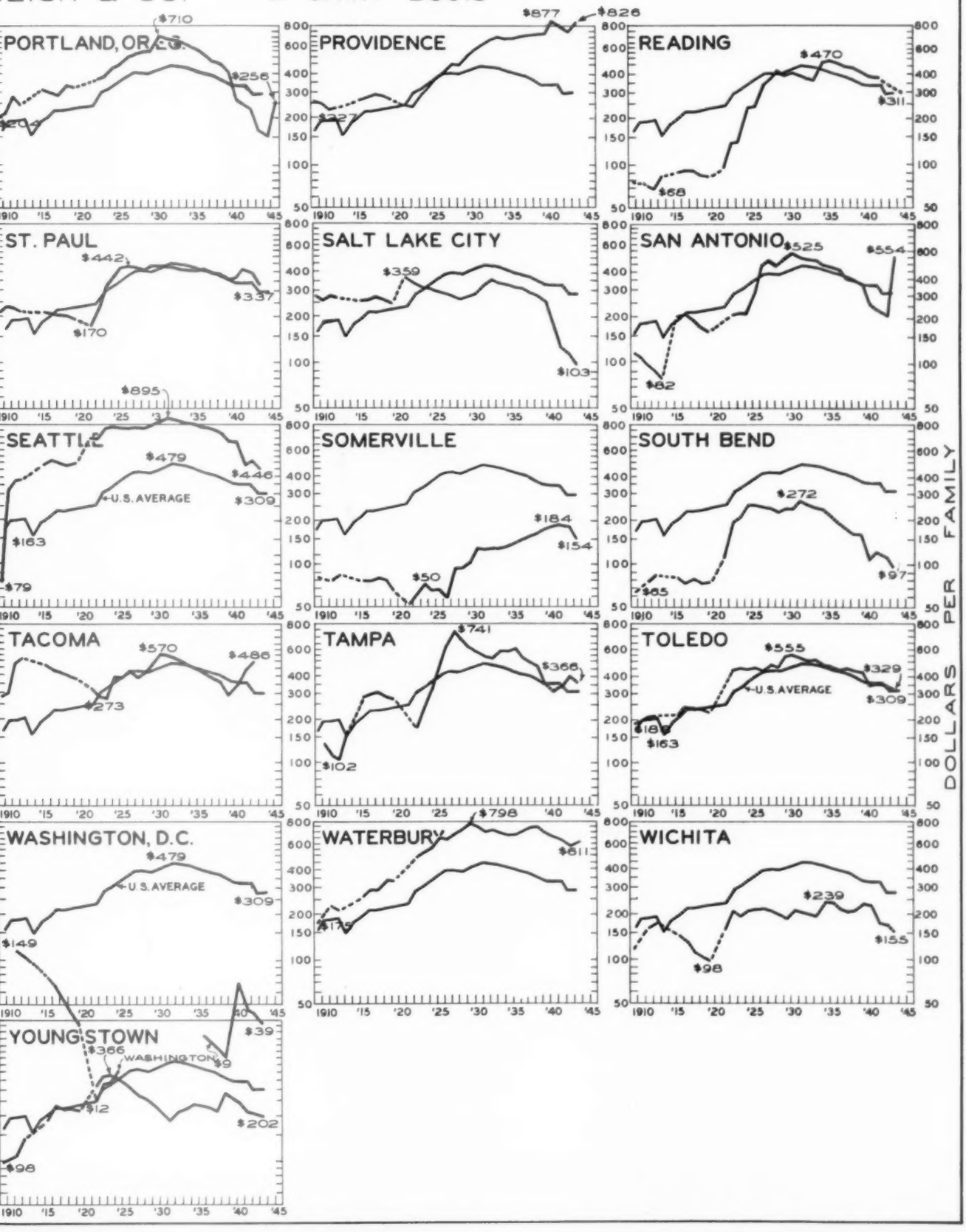


DEBT PER FAMILY
RAL AND STATE
LICK & CO. ~ SAINT LOUIS



THE REAL ESTATE ANALYSTS

EXECUTIVE DIGEST

DECEMBER 1945

OF THE CURRENT REAL ESTATE ANALYST REPORTS

ROY WENZLICK & CO.

Real Estate Economists, Appraisers and Counselors

VOLUME XIV

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Roy Wenzlick
Econ

REAL ESTATE ACTIVITY

The preliminary figure for November on real estate activity in urban areas of the United States shows it to have been 67.0 per cent above the long-term computed normal. This is a tremendous jump over the October figure of 56.8 per cent and it compares with 48.2 per cent in November 1944 and 28.6 per cent in November 1943.

Without relationship to the long-term trend real estate transfers, however, are not quite so numerous in relationship to the number of families in urban areas as they were in 1923 and 1925. In November they were running 6 per cent above the 1926 level. In 1923 transfers reached a peak of 11 per cent above, and in 1925 they reached a peak of 12 per cent above.

Even should a price ceiling be placed on real estate it will not decrease markedly the amount of real estate activity during 1946.

RESIDENTIAL BUILDING

The number of new family units built per year per thousand families in nonfarm areas of the United States in November was at a level of 7.4. This is a slight increase over the preceding months as is shown on the following table. These figures have been corrected for seasonal fluctuation.

January ... 5.2	April 5.1	July 5.6	October ... 6.8
February .. 5.1	May 5.2	August 5.8	November .. 7.4
March 4.9	June 5.3	September . 6.2	

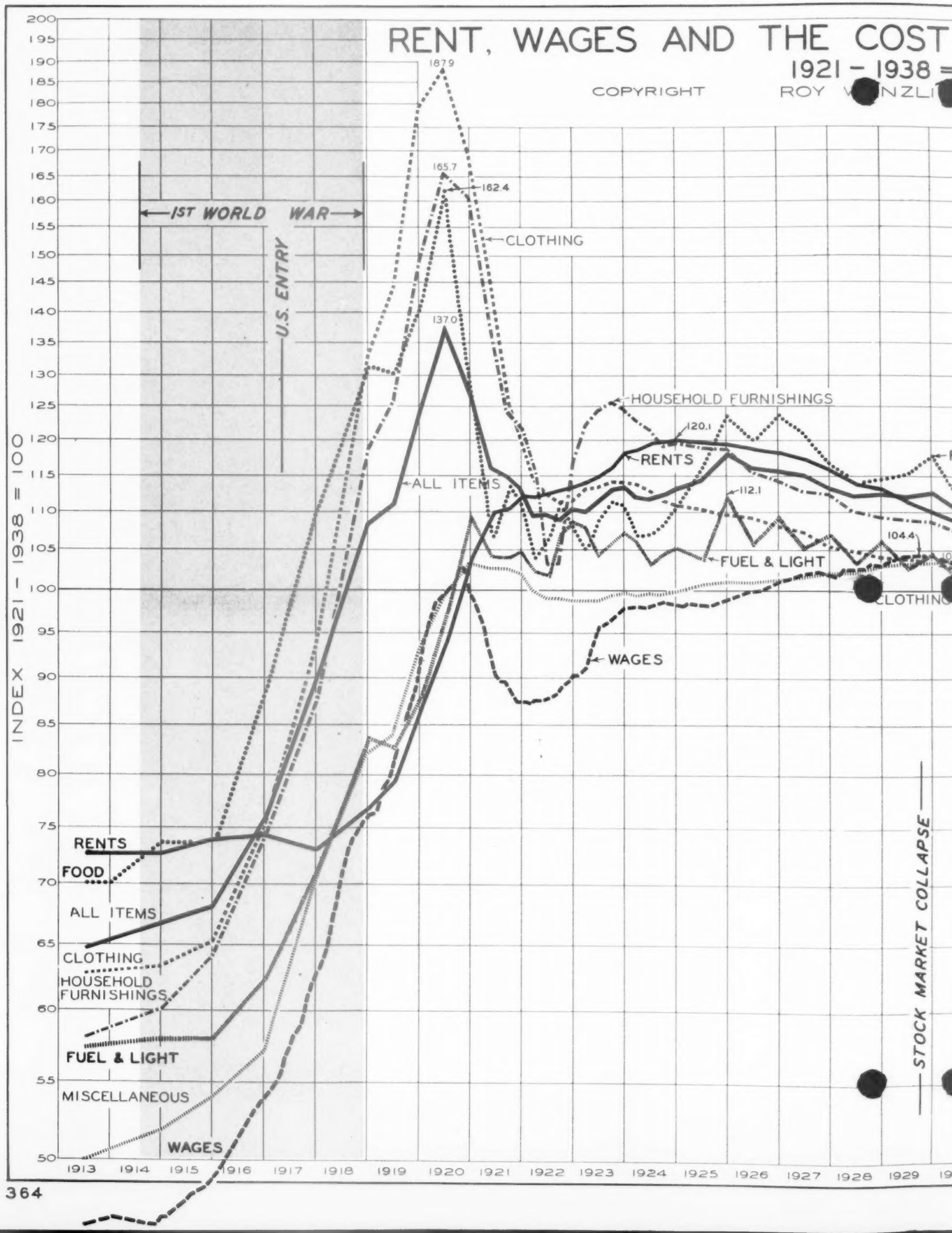
These figures compare with a high of 34 new family dwelling units per thousand families in 1925. It will be a number of years before we can hope to reach that high a level again, in spite of the accumulated demand.

BUILDING COSTS

Our index on the cost of building the standard six-room frame residence in St. Louis in December was $9,423. This is an increase of 60 per cent above the cost of $5,894 at the time the war started in Europe, or an increase of 110 per cent above the cost of $4,480 at the bottom of the depression in 1932.

FORECLOSURES

Foreclosures are now running 4.7 per hundred thousand families. This does not represent any great change over the level which has been maintained during all of 1944 and 1945. Over this period foreclosures in relationship to families have been lower than they have been in any period as far


RENT, WAGES AND THE COST
1921 – 1938 =
COPYRIGHT
ROY
INDEX 1921 – 1938 = 100
1ST WORLD WAR
U.S. ENTRY
STOCK MARKET COLLAPSE
187.9
165.7
162.4
137.0
120.1
112.1
104.4
CLOTHING
HOUSEHOLD FURNISHINGS
RENTS
ALL ITEMS
FUEL & LIGHT
WAGES
FOOD
MISCELLANEOUS
200
195
190
185
180
175
170
165
160
155
150
145
140
135
130
125
120
115
110
105
100
95
90
85
80
75
70
65
60
55
50
1913
1914
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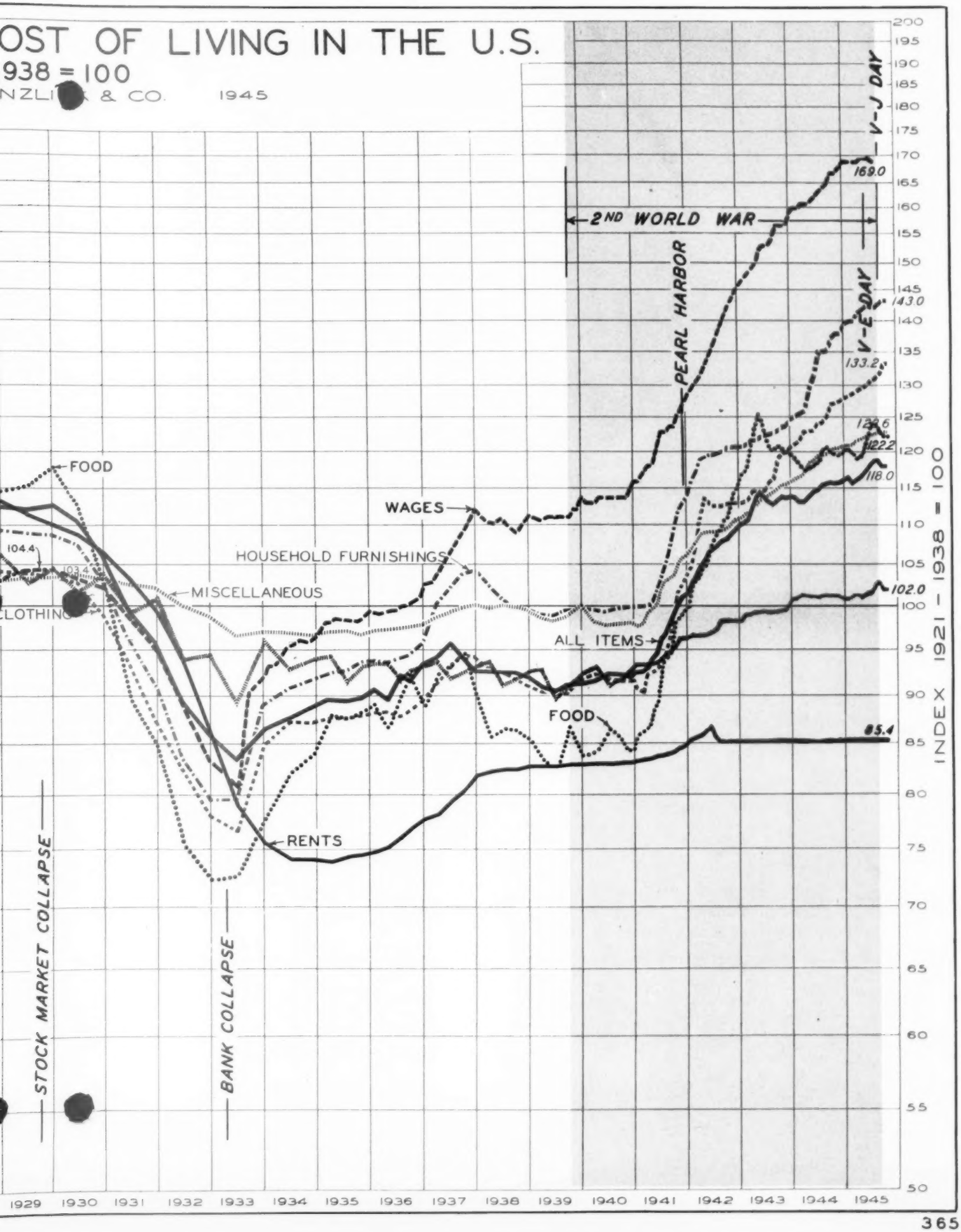
1928
1929


OST OF LIVING IN THE U.S.
938 = 100
NZLI & CO. 1945
V-J DAY
169.0
2ND WORLD WAR
PEARL HARBOR
V-E DAY
143.0
133.2
122.6
122.2
118.0
102.0
85.4
FOOD
WAGES
HOUSEHOLD FURNISHINGS
MISCELLANEOUS
104.4
103.4
LOTHING
ALL ITEMS
FOOD
RENTS
STOCK MARKET COLLAPSE
BANK COLLAPSE
INDEX 1921 - 1938 = 100
200
195
190
185
180
175
170
165
160
155
150
145
140
135
130
125
120
115
110
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100
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75
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55
50
1929
1930
1931
1932
1933
1934
1935
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1937
1938
1939
1940
1941
1942
1943
1944
1945

back as records go. Until foreclosures start to increase and real estate activity starts to decrease, there is no particular danger in holding real estate acquired during the depression period. Generally foreclosures will increase for a year or two and activity will decrease for about that long a period before any appreciable change takes place in values in a declining market.

REAL ESTATE MORTGAGES

Mortgage activity during November was 16.1 per cent below the long-term computed normal. This is the highest point reached in mortgage activity since 1930. During the peak of the twenties when a great deal of mortgage activity was taking place on large buildings mortgage activity reached a peak 77 per cent above the long-term computed normal.

GENERAL PRICE LEVEL

The Bureau of Labor Statistics index on wholesale prices has continued upward slowly, reaching a peak in November of 6.3 per cent above the 1926 level. General prices will climb during 1946.

BUSINESS ACTIVITY

Business activity is still dropping. It is now less than 9 per cent above the long-term computed normal in contrast with a high in October 1943 of more than 40 per cent and a low in 1932 of 49.2 per cent below. The low point in business activity will probably be reached this spring or early summer, depending on how rapidly present labor troubles can be solved.

STOCK PRICES

It seems entirely possible that the prices of common stocks will go considerably above their present level. Unless the administration attempts to talk down the market, it seems that there is relatively little chance of a major collapse from the present level in the near future, with the possibility that the Dow-Jones industrial average will reach 250 against a present level of about 191. There is a strong probability, however, that the administration will attempt to stop the rise by some sort of public warning and at the present level this might bring about a sizable but relatively temporary retreat. Our attitude on the market is bullish for the long term, but cautious for the immediate future.

RENT, WAGES, AND THE COST OF LIVING

The chart in the center spread of this report shows rent, wages, and the cost of living in the United States from 1913 to the present. Rent and other cost of living figures used in this chart are computed from the indexes of the United States Bureau of Labor Statistics. In place of using a single year, however, as a base we have used an eighteen-year period, 1921-1938, as equalling 100. This eighteen-year period is the same length as the average length of the real estate cycle. It also includes the same number of good and bad years. Statistically, a base period covering an entire cycle is far more reliable than a single year.

This chart shows that rents are 14.6 per cent below the eighteen-year average, while all other items of the cost of living are above the eighteen-year average. Household furnishings have had the largest percentage increase, now being 43.0 per cent above the eighteen-year average.

Rent control was inaugurated and is being held to protect labor. Wages, however, are 69.0 per cent above the eighteen-year average.